CHAPTER-I

OVERVIEW

Chapter 1: Overview

1.1 Profile of the State

Mizoram is situated in the North-Eastern Region (NER) of India bordering three of the seven states in the NER[1] and shares an international border with Myanmar and Bangladesh. It is the fifth smallest State of India in terms of geographical area (21,081 sq.km.) and second least populated State in the country. The population of the State increased from 8,88,573 in 2001 to 10,97,206 in 2011 and has subsequently recorded a decadal growth of 23.48 *per cent* during 2010 to 2020 to stand at 13,26,550 as of March, 2020.

The State has eleven districts and three Autonomous District Councils (ADCs). The per capita income of the State at current prices was ₹ 2,04,018 during 2019-20, which was more than the average of North Eastern and Himalayan States of ₹ 1,37,174 and all India average of ₹ 1,52,440. General and financial data relating to the State is given in ***Appendix I.***

1.1.1 Gross State Domestic Product of the State

Gross State Domestic Product (GSDP) is the value of all the goods and services produced within the boundaries of the State in a given period of time. Growth of GSDP is an important indicator of the State's economy, as it denotes the extent of changes in the level of economic development of the State over a period of time.

Changes in sectoral contribution to the GSDP is also important to understand the changing structure of economy. The economic activity is generally divided into Primary, Secondary and Tertiary sectors, which correspond to the Agriculture, Industry and Service sectors.

Table 1.1 : Trends in GSDP compared to the national GDP

(₹ in crore)

Year	2015-16	2016-17	2017-18	2018-19	2019-20
National GDP at current price	**1,37,71,874**	**1,53,91,669**	**1,70,98,304**	**1,89,71,237**	**2,03,39,849**
Growth rate of GDP over previous year (in *per cent*)	**10.46**	**11.76**	**11.09**	**10.95**	**7.21**
State's GSDP at current price	15,139	17,192	19,385	22,287	26,503
Growth rate of GSDP over previous year (in *per cent*)	12.06	13.56	12.76	14.97	18.91

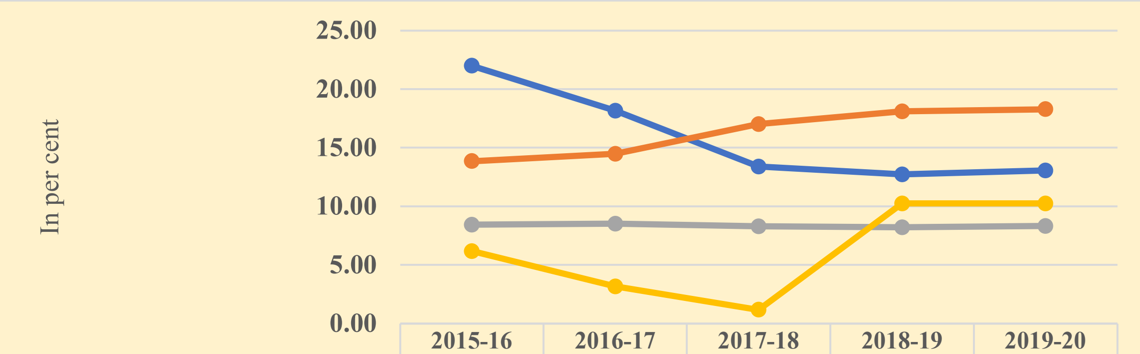
Source: GoI's Economic Survey and Department of Economics and Statistics, State Government.
[a]P.E. - Provisional Estimates; [b]1st A.E. –First Advanced Estimates

[1] Assam, Manipur and Tripura

As can be seen from the preceding table, the GSDP of Mizoram grew at a higher rate during the period from 2015-16 to 2019-20 as compared to the national growth rate. During the year 2015-16, it registered the lowest growth rate in five years.

Chart 1.1 reveals that during the five-year period from 2015-16 to 2019-20, there has been a significant decrease in the growth rate of the Primary sector in GSDP, declining from 22 *per cent* in 2015-16 to 12.73 *per cent* in 2018-19, but there was a slight increase in 2019-20 (13.06 *per cent*). However, an increase was seen in the Secondary sector while the Tertiary sector remained more or less constant in growth while remaining to be the largest contributor to GSDP.

Chart 1.1 : Sectoral growth in GSDP

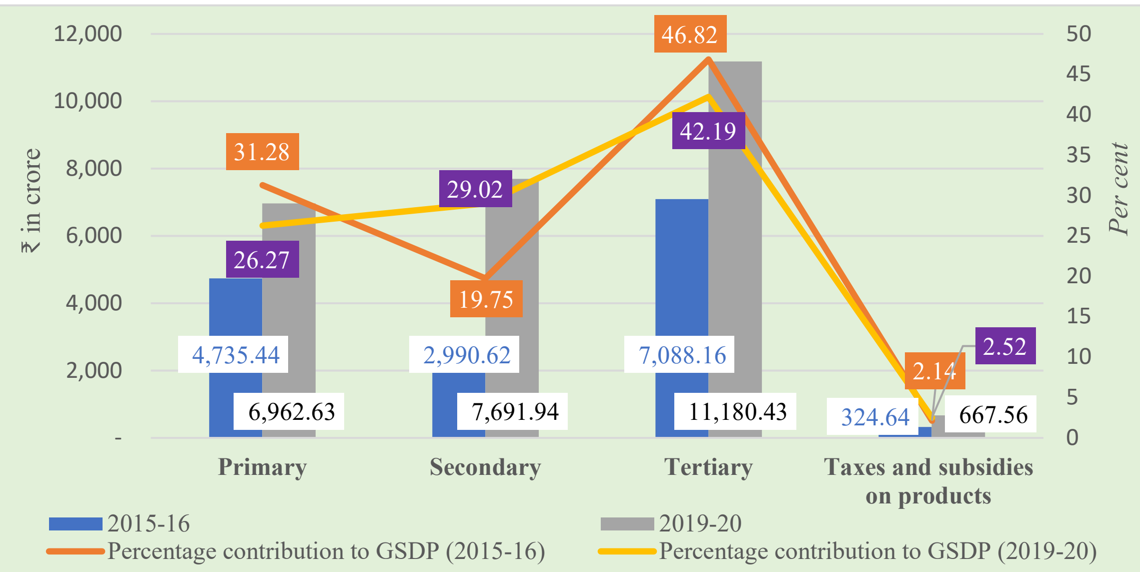


	2015-16	2016-17	2017-18	2018-19	2019-20
Primary	22.00	18.16	13.38	12.73	13.06
Secondary	13.86	14.49	17.03	18.11	18.30
Tertiary	8.44	8.52	8.30	8.22	8.32
Taxes and Subsidies on Products	6.17	3.18	1.18	10.25	10.25

Source: Department of Economics and Statistics, Government of Mizoram

Chart 1.2 shows the change in sectoral contribution between the years 2015-16 and 2019-20.

Chart 1.2 : Change in sectoral contribution to GSDP (2015-16 to 2019-20)



Source: Department of Economics and Statistics, Government of Mizoram

1.2 Basis and Approach to State Finances Audit Report

In terms of Article 151 (2) of the Constitution of India, the reports of the Comptroller and Auditor General of India (CAG) relating to the accounts of a State are to be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State. The State Finances Audit Report (SFAR) is prepared and submitted under Article 151 (2) of the Constitution of India.

Principal Accountant General (Accounts & Entitlements) prepares the Finance Accounts and Appropriation Accounts of the State annually, from the vouchers, challans and initial and subsidiary accounts rendered by the treasuries, offices and Departments responsible for keeping of such accounts functioning under the control of the State Government, and the statements received from the Reserve Bank of India. These accounts are audited independently by the Principal Accountant General (Audit), and certified by the CAG.

Finance Accounts and Appropriation Accounts of the State constitute the core data for this report. Other sources include the following:

- Budget of the State: for assessing the fiscal parameters and allocative priorities *vis-à-vis* projections, as well as for evaluating the effectiveness of its implementation and compliance with the relevant rules and prescribed procedures;
- Results of audit carried out by the Office of the Principal Accountant General (Audit);
- Other data with Departmental Authorities and Treasuries (accounting as well as MIS),
- GSDP data and other State related statistics; and
- Various audit reports of the CAG of India.

The analysis is also carried out in the context of recommendations of the XIV Finance Commission (FC), State Financial Responsibility and Budget Management Act, best practices and guidelines of the Government of India.

1.3 Report Structure

The SFAR is structured into the following five Chapters:

Chapter - 1	**Overview** This Chapter describes the basis and approach to the Report and the underlying data, provides an overview of structure of government accounts, budgetary processes, macro-fiscal analysis of key indices and State's fiscal position including the deficits/ surplus.
Chapter - 2	**Finances of the State** This Chapter provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the period from 2015-16 to 2019-20, debt profile of the State and key Public Account transactions, based on the Finance Accounts of the State.

Chapter - 3	**Budgetary Management** This chapter is based on the Appropriation Accounts of the State and reviews the appropriations and allocative priorities of the State Government and reports on deviations from Constitutional provisions relating to budgetary management.
Chapter - 4	**Quality of Accounts & Financial Reporting Practices** This chapter comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the State Government.
Chapter 5	**Functioning of State Public Sector Enterprises** This chapter gives an overall picture of the financial performance of State Public Sector Enterprises (SPSEs), as revealed from their accounts. It also contains the impact of revision of accounts as well as significant comments issued as a result of supplementary audit of the financial statements of the SPSEs conducted by the C&AG.

1.4 Overview of Government Accounts' Structure and Budgetary Processes

The Accounts of the State Government are kept in three parts:

1. **Consolidated Fund of the State (Article 266(1) of the Constitution of India)**

   This Fund comprises all revenues received by the State Government, all loans raised by the State Government (market loans, bonds, loans from the Central Government, loans from Financial Institutions, Special Securities issued to National Small Savings Fund, etc.), Ways and Means advances extended by the Reserve Bank of India and all moneys received by the State Government in repayment of loans. No moneys can be appropriated from this Fund except in accordance with law and for the purposes and in the manner provided by the Constitution of India. Certain categories of expenditure (e.g., salaries of Constitutional authorities, loan repayments etc.), constitute a charge on the Consolidated Fund of the State (Charged expenditure) and are not subject to vote by the Legislature. All other expenditures (Voted expenditure) are voted by the Legislature.

2. **Contingency Fund of the State (Article 267(2) of the Constitution of India)**

   This Fund is in the nature of an imprest which is established by the State Legislature by law, and is placed at the disposal of the Governor to enable advances to be made for meeting unforeseen expenditure pending authorisation of such expenditure by the State Legislature. The fund is recouped by debiting the expenditure to the concerned functional major head relating to the Consolidated Fund of the State.

3. **Public Accounts of the State (Article 266(2) of the Constitution)**

   Apart from the above, all other public moneys received by or on behalf of the Government, where the Government acts as a banker or trustee, are credited to the Public Account. The Public Account includes repayables like Small Savings and

Provident Funds, Deposits (bearing interest and not bearing interest), Advances, Reserve Funds (bearing interest and not bearing interest), Remittances and Suspense heads (both of which are transitory heads, pending final booking). The net cash balance available with the Government is also included under the Public Account. The Public Account is not subject to the vote of the Legislature.

There is a constitutional requirement in India (Article 202) to present before the House or Houses of the Legislature of the State, a statement of estimated receipts and expenditures of the government in respect of every financial year. This 'Annual Financial Statement' constitutes the main budget document. Further, the budget must distinguish expenditure on the revenue account from other expenditures.

Revenue Receipts consists of tax revenue, non-tax revenue, share of Union Taxes/ Duties, and grants from Government of India.

Revenue Expenditure consists of all those expenditures of the government which do not result in creation of physical or financial assets. It relates to those expenses incurred for the normal functioning of the government departments and various services, interest payments on debt incurred by the government, and grants given to various institutions (even though some of the grants may be meant for creation of assets).

The **Capital Receipts** consist of:

- **Debt Receipts:** Market Loans, Bonds, Loans from financial institutions, Net transaction under Ways and Means Advances, Loans and Advances from Central Government, etc.;
- **Non-debt Receipts:** Proceeds from disinvestment, Recoveries of loans and advances;

Capital Expenditure includes expenditure on the acquisition of land, buildings, machinery, equipment, investment in shares and loans and advances by the government to PSUs and other parties.

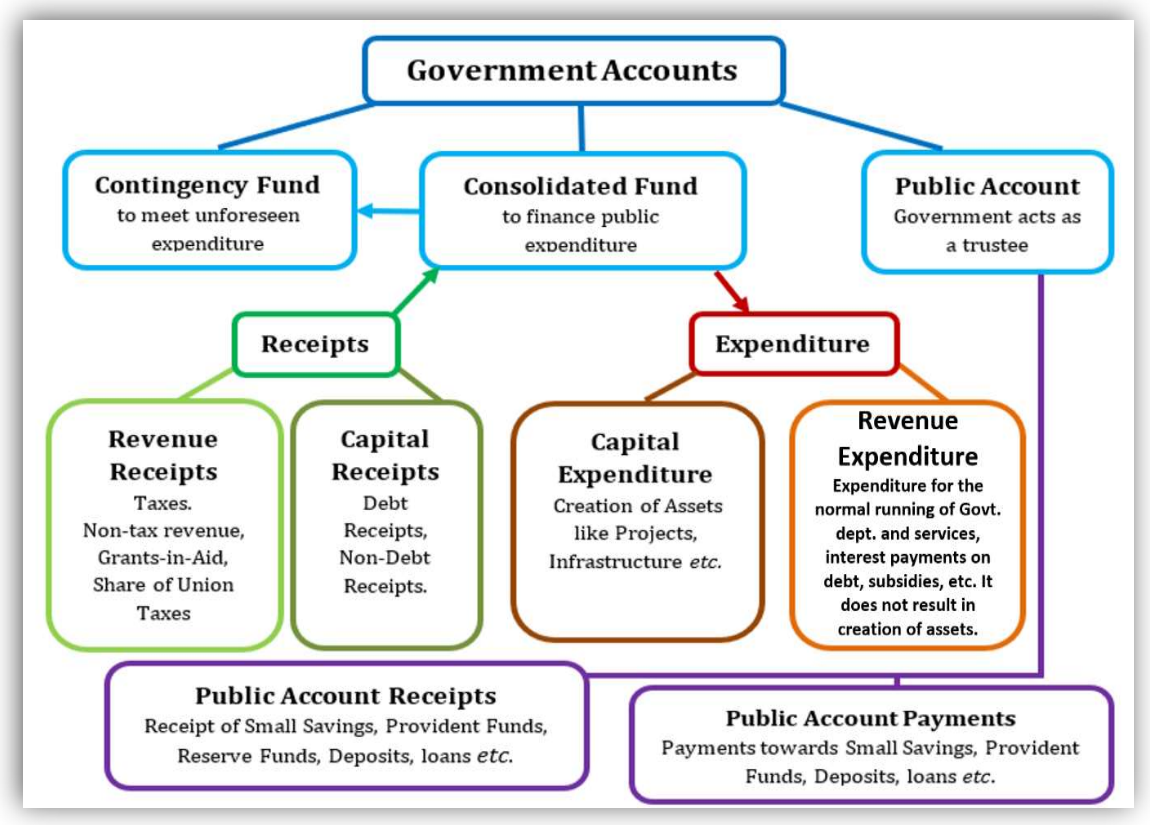
At present, we have an accounting classification system in government that is both functional and economic.

Table 1.2 : Classification of Accounts

	Attribute of transaction	Classification
Standardized in LMMH by CGA	Function- Education, Health, etc. /Department	Major Head under Grants (4-digit)
	Sub-Function	Sub Major head (2-digit)
	Programme	Minor Head (3-digit)
Flexibility left for States	Scheme	Sub-Head (2-digit)
	Sub scheme	Detailed Head (2-digit)
	Economic nature/Activity	Object Head-salary, minor works, etc. (2-digit)

The functional classification lets us know the department, function, scheme or programme, and object of the expenditure. Economic classification helps organize these payments as revenue, capital, debt, etc. Economic classification is achieved by the numbering logic embedded in the first digit of 4-digit Major Heads. For instance, 0 and 1 is for revenue receipts, 2 and 3 for revenue expenditure, and 4 and 5 for capital expenditure etc. Economic classification is also achieved by an inherent definition and distribution of some object heads. For instance, generally "salary" object head is revenue expenditure, "construction" object head is capital expenditure. Object head is the primary unit of appropriation in the budget documents.

Chart 1.3 : Structure of Government Accounts



Budgetary Processes

In terms of Article 202 of the Constitution of India, the Governor of Mizoram causes to be laid before the State Legislature, a statement of the estimated receipts and expenditure of the State for the year 2019-20, in the form of an **Annual Financial Statement**. In terms of Article 203, the statement is submitted to the State Legislature in the form of Demands for Grants/ Appropriations and after approval of these, the Appropriation Bill is passed by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund.

The State Budget Manual details the budget formulation process and guides the State Government in preparing its budgetary estimates and monitoring its expenditure activities. Results of audit scrutiny of budget and implementation of other budgetary initiatives of the State Government are detailed in **Chapter 3** of this Report.

1.4.1 Snapshot of Finances

The following table provides the details of actual financial results vis-a-vis Budget Estimates for the year 2019-20 *vis a vis* actuals of 2018-19.

Table 1.3 : Details of financial results for the year 2019-20

(₹ in crore)

Sl. No.	Components	2018-19 (Actual)	2019-20 (B.E.)	2019-20 (Actuals)	Percentage of Actuals to B.E.	Percentage of Actuals to GSDP
1	Tax Revenue	726.70	573.69	730.98	127.42	2.76
2	Non-Tax Revenue	449.96	459.30	522.35	113.73	1.97
3	Share of Union taxes/duties [(a)]	3,502.96	3,885.19	3,017.80	77.67	11.39
4	Grants-in-aid and Contributions	4,359.88	4,928.81	5,387.13	109.30	20.33
5	**Revenue Receipts (1+2+3+4)**	**9,039.50**	**9,846.99**	**9,658.26**	**98.08**	**36.44**
6	Recovery of Loans and Advances	22.16	39.02	26.70	68.43	0.10
7	Other Receipts	NIL	NIL	NIL	NIL	NIL
8	Borrowings and other Liabilities[(b)]	134.22	845.31	1,147.68	135.77	4.33
9	**Capital Receipts (6+7+8)**	**156.38**	**884.33**	**1,174.38**	**132.80**	**4.43**
10	**Total Receipts (5+9)**	**9,195.88**	**10,731.32**	**10,832.64**	**100.94**	**40.87**
11	**Revenue Expenditure**	**7,505.59**	**8,403.52**	**9,453.96**	**112.50**	**35.67**
12	Interest payments	368.68	359.02	343.12	95.57	1.29
13	**Capital Expenditure [(c)]**	**1,868.47**	**1,914.86**	**1,372.67**	**71.69**	**5.18**
14	Capital outlay	1,868.47	1,914.86	1,372.67	71.69	5.18
15	Loan and advances	40.52	101.70	82.64	81.25	0.31
16	**Total Expenditure (11+13+15)**	**9,414.58**	**10,420.08**	**10,909.27**	**104.69**	**41.16**
17	**Revenue Surplus (5-11)**	**1,533.91**	**1,443.47**	**204.30**	**14.15**	**0.77**
18	**Fiscal Deficit {(5+6+7)-16}**	**-352.92**	**-534.07**	**-1,224.31**	**229.24**	**4.62**
19	**Primary Deficit (-)/ Surplus (+) (18-12)**	**15.76**	**-175.05**	**-881.19**	**503.38**	**3.32**

(a) *Includes State's share of Union Taxes.*
(b) *Borrowings and other Liabilities: Net (Receipts-Disbursements) of Public Debt + Net of Contingency Fund*
\+ *Net (Receipts - Disbursements) of Public Account + Net of Opening and Closing Cash Balance.*
(c) *Expenditure on Capital Account includes Capital Expenditure and Loans and Advances disbursed*

During 2019-20, realisation of Revenue Receipts (₹ 9,658.26 crore) fell short of the estimates (₹ 9,846.99 crore), which was compensated by the excess realisation of Capital Receipts (₹ 1,174.38 crore) over estimates (₹ 884.33 crore). As a result, actual total receipts managed to surpass budgeted estimates for the year by 0.94 *per cent*. Revenue Expenditure for the year (₹ 9,453.96 crore) exceeded estimates (₹ 8,403.52 crore) while there was under achievement in Capital Expenditure (₹ 1,372.67 crore) against estimates (₹ 1,914.86 crore). This had the net effect of making Total Expenditure surpass budgeted estimates by 4.63 *per cent*.

The decrease in Revenue Receipts taken with the increase in Revenue Expenditure meant that only 14.60 *per cent* (₹ 204.30 crore against estimated ₹ 1443.47 crore) of the estimated Revenue Surplus was achieved for the year. Fiscal Deficit and Primary Deficits for 2019-20, exceeded estimates by 229.24 *per cent* (₹ -1,224.31 crore against estimated ₹ -534.07 crore) and 503.38 *per cent* (₹ -881.19 crore against estimated ₹ -175.05 crore) respectively.

With respect to contribution to GSDP, Revenue and Capital Receipts for the year contributed 36.44 *per cent* and 4.43 *per cent* respectively.

1.4.2 Snapshot of Assets and liabilities of the Government

Government accounts capture the financial liabilities of the Government and the assets created out of the expenditure incurred. The liabilities consist mainly of internal borrowings, loans and advances from GoI, receipts from public account and reserve funds, and the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

The following table shows the summarised position of Assets and Liabilities for the Government of Mizoram as on 31 March 2020 *vis-a-vis* 31 March 2019.

Table 1.4 : Summarised position of Assets and Liabilities

(₹ in crore)

As on 31.03.19	Liabilities	As on 31.03.20	As on 31.03.19	Assets	As on 31.03.20
Consolidated Fund of the State					
2,958.10	Internal Debt	3,758.92	14,012.28	Gross Capital Outlay on Fixed Assets	15,384.95
266.17	Loans and Advances from GoI	259.10	247.48	Loans and Advances	303.42
Contingency Fund					
0.10	Contingency Fund	0.10	0.00	Civil Advances	0.00
Public Account					
2,381.02	Small Savings, Provident Funds, etc.	2,187.45	172.62	Remittance Balances	51.86
1,704.74	Deposits	2,247.03	-100.17	Cash Balance	167.89
340.94	Reserve Funds	568.24	334.54	Investment out of Reserve Fund	341.54
862.75	Suspense and Miscellaneous	871.59			
6152.93	Surplus on Government Account	6357.23			
14,666.75		**16,249.66**	**14,666.75**		**16,249.66**

Source: Statement No. 1 of Finance Accounts 2019-20

As it can be seen from the above, during 2019-20, the assets increased by ₹ 1,582.91 crore and the liabilities (excluding surplus on Government Accounts) also increased by ₹ 1,377.95 crore. Further, the growth rate of assets decreased from 12.36 *per cent* in 2018-19 to 10.79 *per cent* in 2019-20, whereas, the growth rate of liabilities excluding surplus on Government Accounts, increased to 16.18 *per cent* in 2019-20 from 0.95 *per cent* in 2018-19.

1.5 Fiscal Balance: Achievement of Deficit and total Debt targets

When a government spends more than it collects by way of revenue, it incurs a deficit. There are various measures that capture government deficit.

Revenue Deficit/ Surplus (Revenue Expenditure – Revenue Receipts)	*Refers to the difference between revenue expenditure and revenue receipts.* • When the government incurs a revenue deficit, it implies that the government is dissaving and is using up the savings of the other sectors of the economy to finance a part of its consumption expenditure. • Existence of revenue deficit is a cause of concern as revenue receipts were not able to meet even revenue expenditure. Moreover, part of capital receipts was utilised to meet revenue expenditure, reducing availability of capital resources to that extent for creation of capital assets. • This situation means that the government • have to borrow not only to finance its investment but also its consumption requirements. This leads to a build-up of stock of debt and interest liabilities and forces the government, eventually, to cut expenditure. • If major part of revenue expenditure is committed expenditure (interest liabilities, salaries, pensions), the government reduces productive expenditure or welfare expenditure. This would mean lower growth and adverse welfare implications.
Fiscal Deficit/ Surplus (Total expenditure – (Revenue receipts + Non-debt creating capital receipts))	*It is the difference between the Revenue Receipts plus Non-debt Capital Receipts (NDCR) and the total expenditure. FD is reflective of the total borrowing requirements of Government.* • Fiscal deficit is the difference between the government's total expenditure and its total receipts excluding borrowing. • Non-debt creating capital receipts are those receipts, which are not borrowings, and, therefore, do not give rise to debt. Examples are recovery of loans and the proceeds from the sale of PSUs. • The fiscal deficit will have to be financed through borrowing. Thus, it indicates the total borrowing requirements of the government from all sources. Governments usually run fiscal deficits and borrow funds for capital/ assets formation or for creation of economic and social infrastructure, so that assets created through borrowings could pay for themselves by generating an income stream. Thus it is desirable to fully utilise borrowed funds for the creation of capital assets and to use revenue receipts for the repayment of principal and interest.
Primary Deficit/ (Gross fiscal deficit – Net Interest liabilities)	*Refers to the fiscal deficit minus the interest payments.* • Net interest liabilities consist of interest payments minus interest receipts by the government on net domestic lending. • The borrowing requirement of the government includes interest obligations on accumulated debt. To obtain an estimate of borrowing because of current expenditures exceeding revenues, we need to calculate the primary deficit.

Deficits must be financed by borrowing giving rise to government debt. The concepts of deficits and debt are closely related. Deficits can be thought of as a flow which add to the stock of debt. If the government continues to borrow year after year, it leads to the accumulation of debt and the government has to pay more and more by way of interest. These interest payments themselves contribute to the debt.

By borrowing, the government transfers the burden of reduced consumption on future generations. This is because it borrows by issuing bonds to the people living at present but may decide to pay off the bonds some twenty years later by raising taxes or reducing expenditure. Also, government borrowing from the people reduces the savings available to the private sector. To the extent that this reduces capital formation and growth, debt acts as a 'burden' on future generations.

However, if government deficits succeed in their goal of raising production, there will be more income and, therefore, more saving. In this case, both government and industry can borrow more. Also, if the government invests in infrastructure, future generations may be better off, provided the return on such investments is greater than the rate of interest. The actual debt could be paid off by the growth in output. The debt should not then be considered burdensome. The growth in debt will have to be judged by the growth of the economy (State GDP) as a whole.

Government deficit can be reduced by an increase in taxes or reduction in expenditure. There has also been an attempt to raise receipts through the sale of shares in PSUs. However, the major thrust has been towards reduction in government expenditure. This could be achieved through making government activities more efficient through better planning of programmes and better administration.

Also, government borrowing from the people reduces the savings available to the private sector. To the extent that this reduces capital formation and growth, debt acts as a 'burden' on future generations

The Central and individual State Governments have passed Fiscal Responsibility and Budget Management Act (FRBM) with the objective of ensuring prudence in fiscal management by eliminating revenue deficits, reducing fiscal deficits and overall/ outstanding debt to acceptable levels, establishing improved debt management and improving transparency in a medium term framework. In this context the Act provides quantitative targets to be adhered by the state with regard to deficit measures and debt level.

The Government of Mizoram enacted the Mizoram Fiscal Responsibility and Budget Management (MZFRBM) Act, 2006 in line with the Union FRBM Act, 2003, to ensure stability and sustainability, improve efficiency and transparency in management of public finances, enhance the availability of resources by achieving sufficient revenue surplus, reduce fiscal deficit and remove impediments to effective conduct of fiscal policy and prudent debt management.

In line with the recommendations of XIII Finance Commission (2010-15), the MZFRBM Act was subsequently amended twice, with the latest amendment being in March 2011.

As per the provisions of the MZFRBM Act, 2006 in addition to the Fiscal Correction Path (FCP), the State Government is required to prepare every year, a Medium Term Fiscal Policy Statement (MTFPS) showing the rolling fiscal targets. However, the MZFRBM Act was not amended in line with the XIV FC recommendation, but in the Fiscal Policy Strategy Statement laid before the Mizoram Legislative Assembly on 13 June 2019 as required under Section 6(6) of the Mizoram Fiscal Responsibility and Budget Management Act, 2006, the fiscal targets set by Fourteenth Finance Commission (XIV FC) have been recognised. The status of achievement vis-à-vis projections set during the period 2015-16 to 2019-20 is given in **Table 1.5**.

Table 1.5 : Compliance with provisions of State FRBM Act/ Projections of XIV FC

Fiscal Parameters	Fiscal Targets	Achievement				
		2015-16	2016-17	2017-18	2018-19	2019-20
Revenue Deficit (-) / Surplus (+) (₹ in crore)	Revenue Surplus (As per FRBM Act)	1105.54	1167.96	1699.43	1533.91	204.30
		✓	✓	✓	✓	✓
Fiscal Deficit (-) / Surplus (+) (as *percentage of GSDP*)	Below three *per cent* (As per FRBM Act)	413.28	251.95	-320.23	-352.92	-1,224.31
		2.73	1.47	1.66	1.59	4.62
		✓	✓	✓	✓	✗
Ratio of total outstanding debt to GSDP (in *per cent*)	As per XIV FC: 2015-16 - 55.85 *per cent* 2016-17 - 52.55 *per cent* 2017-18 - 49.63 *per cent* 2018-19 - 47.05 *per cent* 2019-20 - 44.78 *per cent*	42.32	39.12	37.66	32.82	32.74
		✓	✓	✓	✓	✓

State Government was successful in maintaining Revenue Surplus, Fiscal Deficit and debt GSDP ratio as projected in XIV FC Report during the first four years of the award period (2015-20). During 2019-20 Revenue Surplus stood at ₹ 204.30 crore. At the same time, Fiscal Deficit at 4.62 *per cent* of GSDP was not maintained below the targeted three *per cent*. The State Government was able to meet the target ratio of total outstanding debt to GSDP and the debt ratio was reduced to 32.74 *per cent* from the previous year's 32.82 *per cent*.

Similarly, the Medium Term Fiscal Plan (MTFP) has set forth a five-year rolling target for the prescribed fiscal indicators. **Table 1.6** indicates the variation between the projections made for 2019-20.

Table 1.6 : Actuals vis-à-vis projection in MTFP for 2019-20

(₹ in crore)

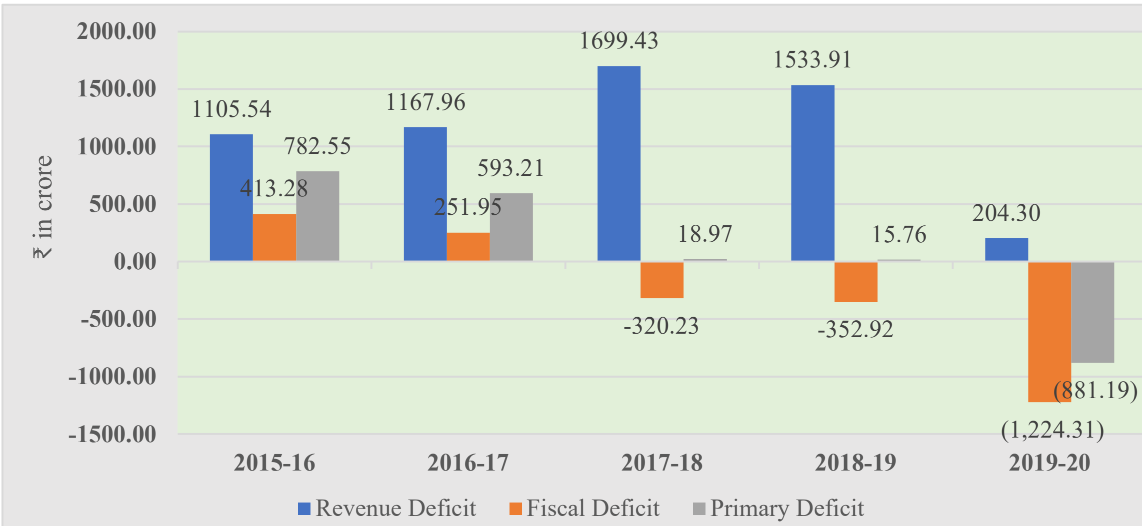
Sl. No.	Fiscal Variables	Projection as per MTFP	Actuals (2019-20)	Variation (in *per cent*)
1	Own Tax Revenue	573.69	730.98	27.42
2	Non-Tax Revenue	459.3	522.35	13.73
3	Share of Central Taxes	3885.19	3017.8	-22.33
4	Grants -in-aid from GoI	4928.81	5387.13	9.30
5	Revenue Receipts (1+2+3+4)	9846.99	9658.26	-1.92
6	Revenue Expenditure	8403.52	9453.96	12.50
7	Revenue Deficit (-)/ Surplus (+) (5-6)	1443.47	204.30	-85.85
8	Fiscal Deficit (-)/ Surplus (+)	-534.07	-1224.31	129.24
9	Debt-GSDP ratio (*per cent*)	32.66	32.74	-0.24
10	GSDP growth rate at current prices (*per cent*)	12.15	18.91	55.64

As can be seen from the above table, the projections made in MTFP relating to two key fiscal parameters *i.e.,* Share of Central Taxes, Revenue Surplus and Fiscal Deficit showed significant downward movement during 2019-20 compared to projections. On the other hand, there was improvement in Own Tax Revenues, Non-Tax Revenues and Grants in Aid from GoI.

Projection relating to Debt-GSDP ratio was not met and the GSDP growth rate exceeded the projections in the MTFP.

The State did not achieve the targets specified by the XIV FC during 2019-20 with regard to the key fiscal parameters, compared to the previous year. It had a fiscal deficit of ₹ -1224.31 crore during the year 2019-20, representing 4.62 *per cent* of the GSDP. The Primary Surplus of ₹ 15.76 crore during 2018-19 changed into Primary Deficit of ₹ 881.19 crore during the current year and the Revenue surplus of ₹ 1,533.91 crore in 2018-19 reduced to ₹ 204.30 crore during 2019-20. The trend of these deficits over the five-year period from 2015-16 to 2019-20 is depicted in Chart 1.4.

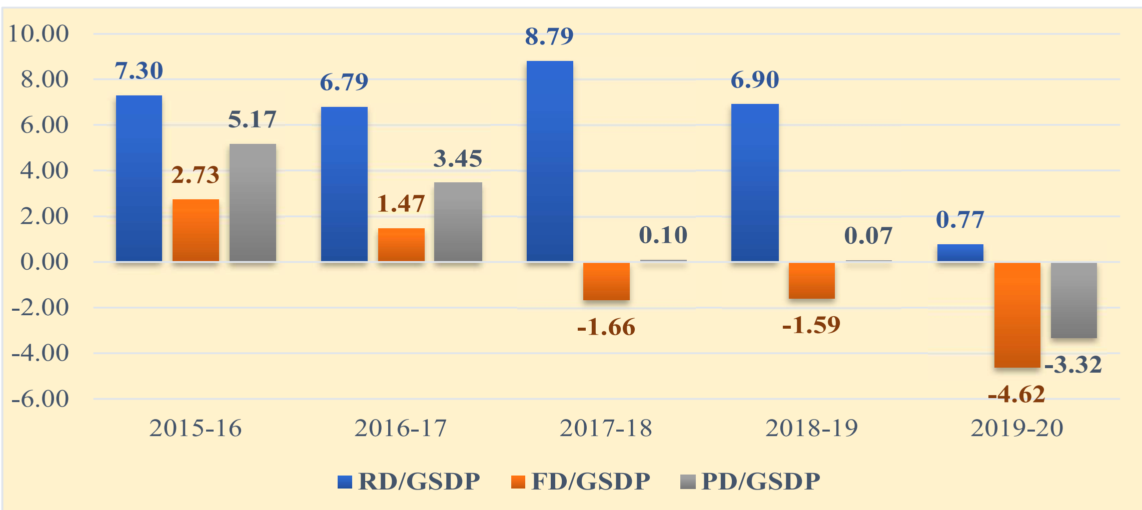
Chart 1.4 : Trends in deficit parameters



Source: Finance Accounts

There was a marked change in movement for the current year as compared to the overall trend of the past four years due mainly to an increase in Revenue Expenditure of ₹ 1,050.44 crore over MTFP projections with a simultaneous reduction in Revenue Receipts of ₹ 188.73 crore below projected values. Chart 1.5 depicts the trends in surplus/ deficit relative to GSDP.

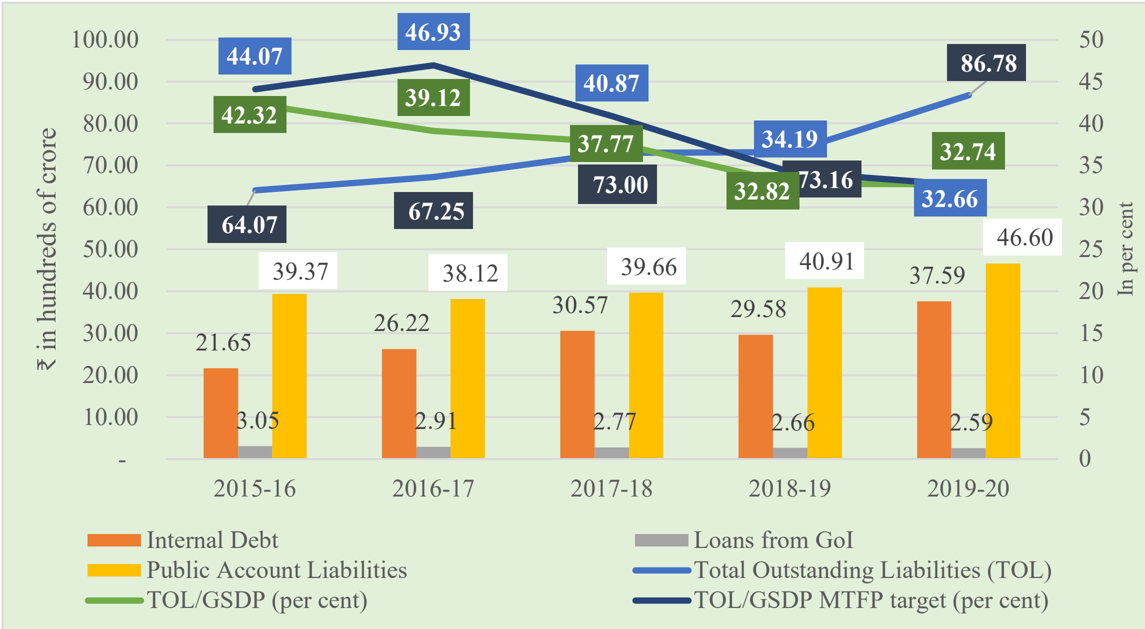
Chart 1.5 : Trends in Surplus/Deficit relative to GSDP



Source: Finance Accounts

Components of fiscal liabilities exhibited upward movement for the current year with increases in Internal Debt (₹ 800.82 crore) and Public Account Liabilities (₹ 568.96 crore) while Loans from GoI decreased by ₹ 7.06 crore. As a result, total outstanding liabilities (TOL) for the year stood at ₹ 8,678.26 crore while the percentage of TOL to GSDP had increased to 32.74 *per cent* which was 0.08 percentage points above the required target set by the MTFP. **Chart 1.6** depicts the trends in fiscal liabilities relative to GSDP.

Chart 1.6 : Trends in Fiscal Liabilities and GSDP



Source: Finance Accounts

1.6 Deficits and Total Debt after examination in audit

In order to present a better picture of State Finances, there is a tendency to classify revenue expenditure as capital expenditure and to conduct off-budget fiscal operations.

1.6.1 Post audit - Deficits

Misclassification of revenue expenditure as capital and off budget fiscal operations impacts deficit figures. Besides, deferment of clear cut liabilities, not depositing cess/royalty to Consolidated Fund, short contribution to New Pension Scheme, sinking and redemption funds, etc. also impacts the revenue and fiscal deficit figures. In order to arrive at actual deficit figures, the impact of such irregularities need to be reversed.

The impact on Revenue Surplus and also on Fiscal Deficit of the State Government as per the findings of audit is given in the following table:

Table 1.7 : Impact of misclassification of Revenue Expenditure on Revenue Surplus and Fiscal Deficit

(₹ *in crore*)

Particulars	Impact on Revenue Surplus		Impact on Fiscal Deficit		Paragraph Reference
	Under-statement	Over-statement	Under-statement	Over-statement	
Short credit of contribution of State Government to the Consolidated Sinking Fund		36.58	36.58		3.(v) b) A (i) of Notes to Accounts
Non-adjustment of interest payment on Interest bearing Reserve Funds		1.61	1.61		3.(v) B. c) of Notes to Accounts
Net Impact		**38.19**	**38.19**		

Source: Finance Accounts and audit analysis

As could be seen from the table above, the State Government short contributed ₹ 36.58 crore to the Consolidated Sinking fund and interest on Interest bearing Reserve Funds was not provided for ₹1.61 crore , during the year 2019-20. This led to overstatement of Revenue deficit and understatement of fiscal deficit by ₹ 38.19 crore, during the year 2019-20.

1.7 Conclusion

The growth rate of GSDP of the State at current prices, during 2015-20 ranged between 12.06 *per cent* (2015-16) to 18.91 *per cent* (2019-20). During 2019-20, the GSDP at current price was ₹ 26,503 crore, up from ₹ 22,287 crore in 2018-19, representing an increase of 18.91 *per cent* which was much higher than that of national growth rate (7.21 *per cent)*. During the five-year period from 2015-16 to 2019-20, there has been a significant decrease in the growth rate of the Primary sector in GSDP, declining from 22 *per cent* in 2015-16 to 12.73 *per cent* in 2018-19, but there was a slight increase in 2019-20 (13.06 *per cent*). However, Secondary sector of the GSDP increased, while the Tertiary sector remained more or less constant in growth, while remaining to be the largest contributor to the GSDP.

The State did not achieve the targets specified by the XIV FC during 2019-20 with regard to the key fiscal parameters, compared to the previous year. It had a fiscal deficit of ₹ 1224.31 crore during the year 2019-20, representing 4.62 *per cent* of the GSDP. The Primary Surplus of ₹ 15.76 crore during 2018-19 changed into Primary Deficit of ₹ 881.19 crore during the current year and the Revenue surplus of ₹ 1,533.91 crore in 2018-19 reduced to ₹ 204.30 crore during 2019-20.

After successfully containing the Fiscal Deficit below three *per cent* of GSDP during 2015-19, the State's Fiscal Deficit increased to 4.62 *per cent* of GSDP during 2019-20. Fiscal Deficit increased by ₹ 871.39 crore from ₹ 352.92 crore in 2018-19, witnessing growth of ₹ 246.91 *per cent*. The State Government was able to meet the target ratio of total outstanding debt to GSDP and the debt ratio reduced marginally to 32.74 *per cent* from the previous year's 32.82 *per cent*. Primary deficit stood at 3.32 *per cent* of GSDP (₹ 881.19 crore).

The State Government short contributed ₹ 36.58 crore to the Consolidated Sinking fund and interest of ₹ 1.61 crore on Interest bearing Reserve Funds was not provided during the year. This led to overstatement of Revenue deficit and understatement of fiscal deficit by ₹ 38.19 crore, during the year 2019-20.

1.8 Recommendations

- *The Government may adhere to targets of MFRBM Act set for fiscal deficit.*
- *The Government may explore essential potentials to increase the growth of the Primary sector in its GSDP.*
- *The Government needs to make more efforts to increase its tax and non-tax revenues since there was a reduction in the Revenue Surplus during the year and guard against becoming a revenue deficit State.*