



**CHAPTER-I
OVERVIEW**



CHAPTER I: OVERVIEW

1.1 Profile of the State

Meghalaya is situated in the North Eastern Region of India and is bound in the north and east by Assam and in the south and west by Bangladesh.

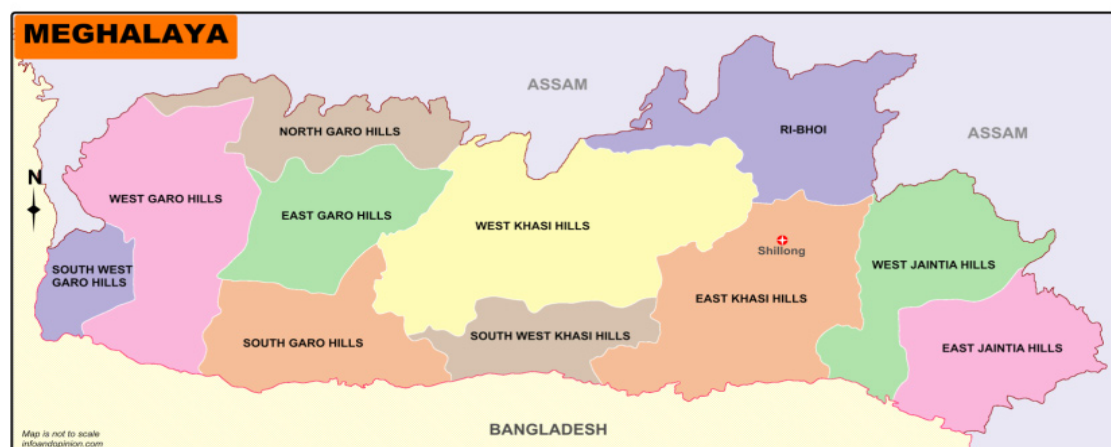


Table 1.1 presents the general data of the State in comparison with all India figures and financial data of the State as detailed below:

Table 1.1: General data of the State in comparison with all India figures

Sl. No.	Particulars	Meghalaya	All India
1.	Area in sq km.	22,429	32,87,263
2.	Population in lakh (2022)	33.18	14,172
3.	Density of Population (persons per sq km)	148	418
4.	Population below poverty line (<i>per cent</i>)	11.87	21.92
5.	Literacy (Census 2011) (<i>per cent</i>)	74.40	73.00
6.	Infant Mortality (per 1000 live births)	29	28
7.	Gross State Domestic Product (GSDP)/ Gross Domestic Product (GDP) 2021-22 at current prices (₹ in crore)	37,830	2,36,64,637
8.	GSDP/GDP CAGR (2012-13 to 2021-22)	6.28	10.11
9.	Per capita GSDP/ GDP (2021-22)	90,638	1,46,087

Source: Data compiled by the Economic Division, O/o the C&AG of India.

The State is spread over a geographical area of 22,429 sq.km. (0.68 *per cent* of the country's total geographical area) and is home to around 33.18 lakh persons (0.24 *per cent* of the population of the country) as on March 2022. The State has 12 districts¹ and three Autonomous District Councils² under Sixth Schedule of the Constitution of India.

The Compound Annual Growth Rate (CAGR) in respect of GSDP of Meghalaya between 2012-13 and 2021-22 was 6.28 *per cent* which was lower than the CAGR of GDP (10.11 *per cent*) during the period. The per capita income of the State at current

¹ East Khasi Hills, West Garo Hills, West Jaintia Hills, West Khasi Hills, East Garo Hills, Ribhoi, South Garo Hills, South West Garo Hills, South West Khasi Hills, East Jaintia Hills, North Garo Hills and Eastern West Khasi Hills.

² Khasi Hills Autonomous District Council, Garo Hills Autonomous District Council, and Jaintia Hills Autonomous District Council.

prices was ₹ 90,638 during 2021-22, which was lower than the all-India average of ₹ 1,46,087.

Table 1.2 presents the financial data of the State in comparison with North Eastern and Himalayan States (NE & HS).

Table 1.2: Financial data of the State in comparison with ‘North Eastern and Himalayan States’
(in per cent)

B. Financial Data (Compound Annual Growth Rate)					
Particulars		2012-13 to 2021-22		2020-21 to 2021-22	
		NE & HS	Meghalaya	NE & HS	Meghalaya
(a)	Revenue Receipts	11.51	11.10	18.08	33.61
(b)	Own Tax Revenue	10.22	11.73	19.62	10.99
(c)	Non-Tax Revenue	7.16	0.88	2.90	0.27
(d)	Total Expenditure	11.47	12.03	16.14	24.28
(e)	Capital Expenditure	7.70	12.86	28.31	56.23
(f)	Revenue Expenditure on General Education	12.17	10.60	8.28	12.50
(g)	Revenue Expenditure on Health & Family Welfare	18.35	19.04	18.04	37.51
(h)	Salaries and Wages	10.67	9.92	7.53	12.16
(i)	Pension	16.34	14.88	25.75	13.38

Source: Data compiled by the Economic Division, O/o CAG of India.

It is evident from the table that Meghalaya has performed significantly better in all financial aspects except for Non-Tax Revenue during 2012-13 to 2021-22. During current financial year also, it has performed better than all NE & HS in all financial aspects except Own Tax Revenue and Non-Tax Revenue.

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 for the year 2021-22 constitute the core data for this Report. Other sources include the following:

- State Budget of the current year and previous three years, along with the State Financial Responsibility and Budget Management Act 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 XV Finance Commission (FC), best practices and guidelines of Government of India. The draft Report is forwarded to the State Government for comments and replies of the Government, where received, are incorporated in this Report at appropriate places.

1.3 Report Structure

The SFAR is structured into the following four Chapters:

Chapter - I	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 the State's fiscal position including the deficits/ surplus.
Chapter - II	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 2017-18 to 2021-22, debt profile of the State and key Public Account transactions, based on the Finance Accounts of the State.
Chapter - III	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 - IV	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.

1.4 Overview of Government Account 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 expenditure (Voted expenditure) is 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 Account 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 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).

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, building, machinery, equipment, investment in shares, and loans and advances by the government to Public Sector Enterprises (PSEs) and other parties.

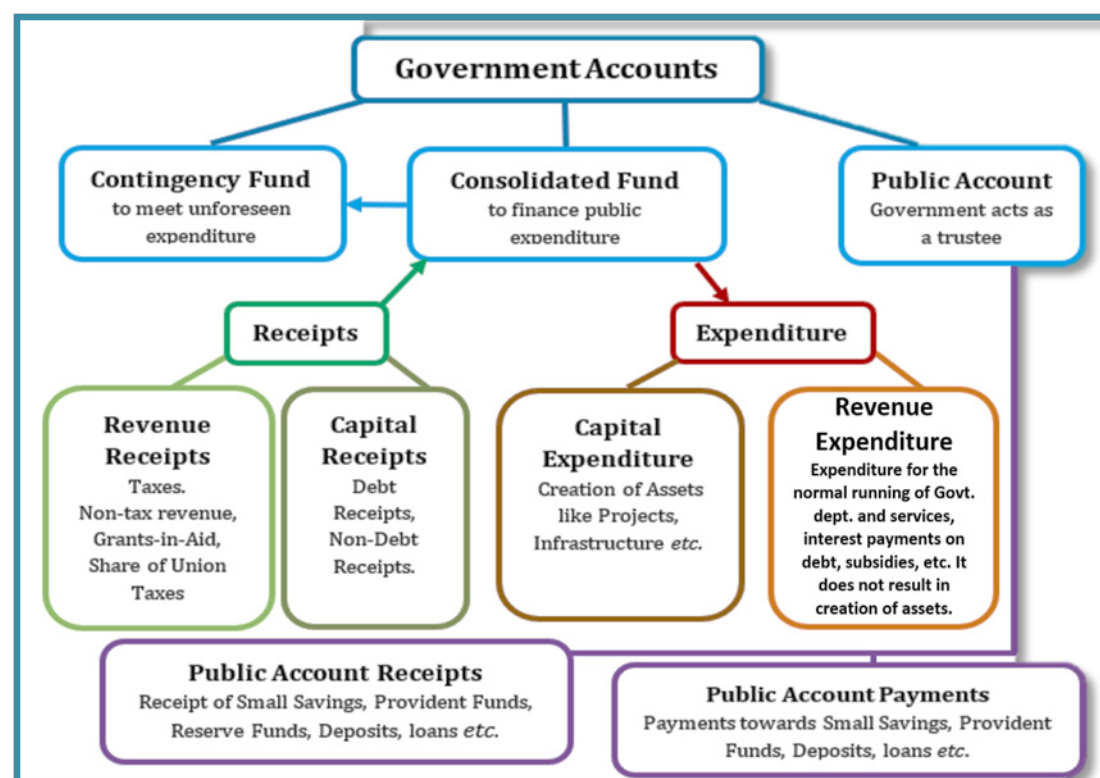
At present, we have an accounting classification system in government that is both functional and economic.

	Attribute of transaction	Classification
Standardised in LMMH by CGA	Function- Education, Health, <i>etc.</i> /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, <i>etc.</i> (2-digit)

The functional classification lets us know the department, function, scheme or programme, and object of the expenditure. Economic classification helps organise 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, *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 1.1 present the structure of Government Accounts.

Chart 1.1: Structure of Government Accounts



Budgetary Processes

In terms of Article 202 of the Constitution of India, the Governor of the State shall cause to be laid before the State Legislature, a statement of the estimated receipts and expenditure of the State, 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. Some States have more than one consolidated Budget – there could be sub-budgets like Gender-based Budget, Agriculture Budget, Weaker sections (SC/ ST) Budget, Disability Budget, Outcome budget, *etc.*

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 the budget and implementation of other budgetary initiatives of the State Government are detailed in **Chapter 3** of this Report.

1.4.1 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. **Table 1.3** presents trends in annual growth of India's GDP *vis-à-vis* the State's GSDP at current prices.

Table 1.3: Trends in GSDP compared to the national GDP at Current Prices

	(₹ in crore)				
Year	2017-18	2018-19	2019-20	2020-21	2021-22
GDP (2011-12 Series)	1,70,90,042	1,88,99,668 (3 rd RE)	2,00,74,856 (2 nd RE)	1,98,00,914 (1 st RE)	2,36,64,637 (PE)
Growth rate of GDP (in per cent)	11.03	10.59	6.22	(-) 1.36	19.51
State's GSDP (2011-12 Series)	29,508	32,176	34,770	34,719 (Q)	37,830 (A)
Growth rate of GSDP (in per cent)	7.54	9.04	8.06	(-) 0.15	8.96

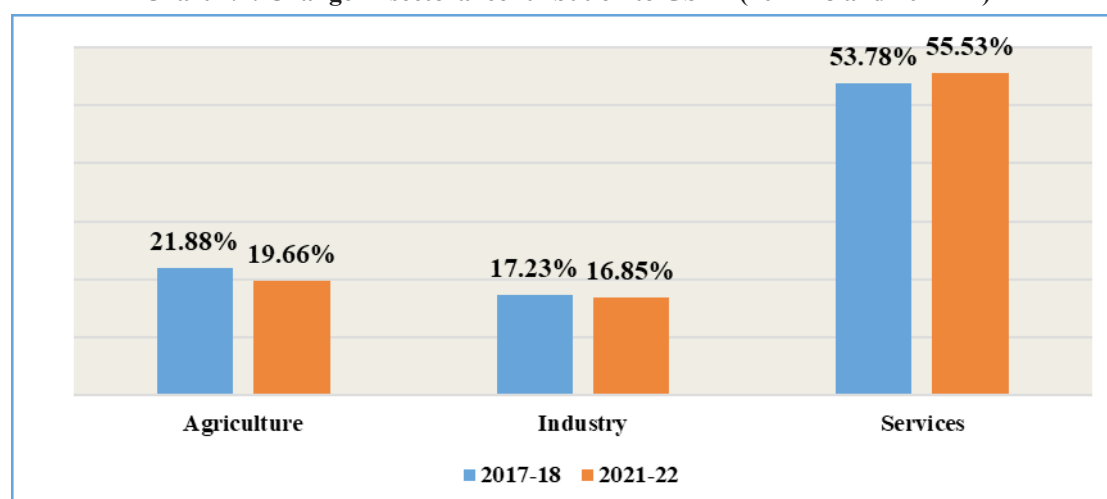
Source of data: Department of Economics and Statistics, Government of Meghalaya and Ministry of Statistics and Programme Implementation, Government of India's website.

Q= Quick Estimates, A= Advance Estimates

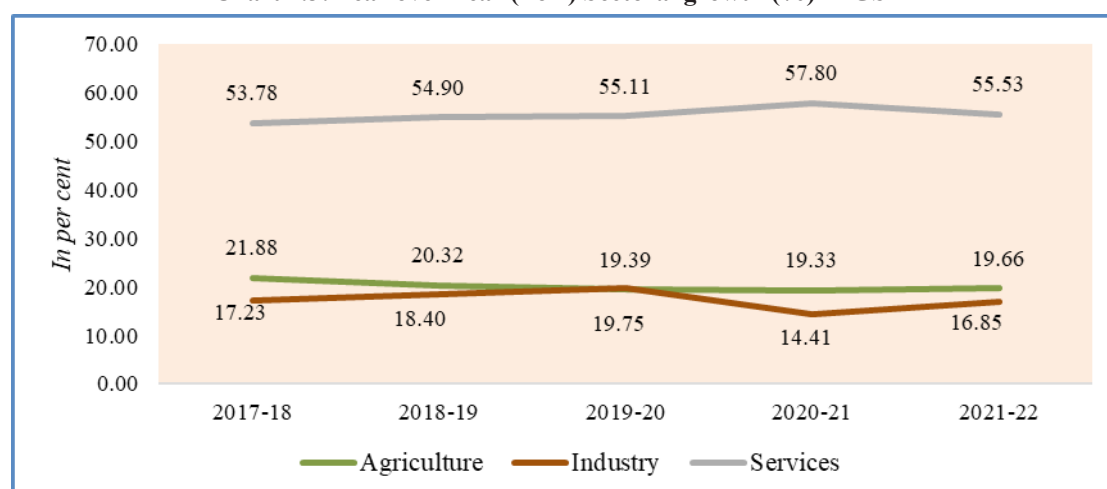
The GSDP at current prices increased by 8.96 per cent, from ₹ 34,719 crore in 2020-21 to ₹ 37,830 crore in 2021-22 as against the assessed growth of 11.10 per cent by the XV FC. However, the increase of GSDP of Meghalaya (8.96 per cent) was lower than the National GDP (19.51 per cent).

Changes in sectoral headings in GSDP

Changes in sectoral contribution to the GSDP is also important to understand the changing structure of the economy. The economic activity is generally divided into Primary, Secondary and Tertiary sectors, which correspond to the Agriculture and Allied Activities, Industry and Services sectors. **Charts 1.2 and 1.3** present a sectoral analysis of GSDP of the State of Meghalaya.

Chart 1.2: Change in sectoral contribution to GSDP (2017-18 and 2021-22)

Source: Information furnished by the Dy. Director, Department of Economic & Statistics, Meghalaya.
*Apart from Agriculture, Industry and Services Sectors, remaining percentage of contribution towards GSDP was from Taxes on Products (9.51 per cent) and Subsidies on products (1.55 per cent).

Chart 1.3: Year over Year (YoY) Sectoral growth (%) in GSDP

Source: Information furnished by the Dy. Director, Department of Economic & Statistics, Government of Meghalaya.

As seen from the GSDP composition in **Charts 1.2** and **1.3** above, the Service Sectors is the main contributor to the State GSDP, with a contribution of 55.53 per cent during 2021-22. During 2021-22, the Industry sector recorded growth rate of 16.85 per cent as against the growth rate of 14.41 per cent during 2020-21. On the other hand, the share of Services sector fell by 2.27 per cent in 2021-22. The Agriculture sector contributed 19.66 per cent to the GSDP in 2021-22, a slight increase from 19.33 per cent in 2020-21.

1.4.2 Snapshot of Finances

The budget papers presented by the State Government provide estimation of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviation from the Budget Estimates (BEs) indicates non-attainment of the desired fiscal objectives. **Table 1.4** presents the details of actual financial results *vis-à-vis* BEs for the year 2021-22 *vis-à-vis* actuals for 2020-21.

Table 1.4: Variation in BEs vis-à-vis Actuals

(₹ in crore)

Sl. No.	Components	2020-21	2021-22		Percentage of Actuals to	
		Actuals	BEs	Actuals	BEs	GSDP
1	Tax Revenue	2,072.56	2,579.23	2,300.38	-10.81	6.08
2	Non-Tax Revenue	523.17	694.03	524.58	-24.42	1.39
3	Share of Union taxes/duties	4,551.63	5,104.88	6,580.63	28.91	17.40
4	Grants-in-Aid and Contributions	3,535.88	6,853.65	4,868.55	-28.96	12.87
5	Revenue Receipts (1+2+3+4)	10,683.24	15,231.79	14,274.14	-6.29	37.73
6	Recovery of Loans and Advances	27.77	30.17	24.41	-19.09	0.06
7	Other Receipts	NIL	NIL	NIL	NIL	NIL
8	Borrowings	2,441.89	2,247.54	4,019.95	78.86	10.63
9	Capital Receipts (6+7+8)	2,469.66	2,277.71	4,044.36	77.56	10.69
10	Total Receipts (5+9)	13,152.90	17,509.50	18,318.50	4.62	48.42
11	Revenue Expenditure	11,498.62	13,956.47	13,620.22	-2.41	36.00
12	of which, Interest payments	858.92	1,046.86	963.27	-7.98	2.55
13	Capital Expenditure	1,815.95	3,366.87	2,837.12	-15.73	7.50
14	Capital outlay	1,734.05	2,816.50	2,751.79	-2.30	7.27
15	Loans and advances	81.90	550.39	85.33	-84.50	0.23
16	Total Expenditure (11+13)	13,314.57	17,323.34	16,457.34	-5.00	43.50
17	Revenue Surplus (+)/ Deficit (-)	-815.38	1,275.32	653.92	-48.73	1.73
18	Fiscal Deficit {(5+6+7)-16}	2,603.56	2,061.38	2,158.79	4.73	5.71
19	Primary Deficit (18-12)	1,744.64	1,014.52	1,195.52	17.84	3.16

From the above table, the following were noticed:

As against estimated Revenue Surplus of ₹ 1,275.32 crore in the BEs of 2021-22, the actual Revenue Surplus was ₹ 653.92 crore as compared to Revenue Deficit of ₹ 815.38 crore during the previous year.

In comparison to the previous year, Government revenue collected was higher under Tax Revenue at ₹ 2,300.38 crore (up by ₹ 227.82 crore over 2020-21), Non-Tax Revenue at ₹ 524.58 crore (up by ₹ 1.41 crore) and Share of Union taxes/ duties at ₹ 6,580.63 crore (up by ₹ 2,029.00 crore). The Grants-in-Aid (GIA) and Contributions from GoI during 2021-22 was ₹ 4,868.555 crore, which was higher by ₹ 1,332.67 crore over the previous year.

Total Receipts of the State stood at ₹ 18,318.50 crore, higher than the BEs of ₹ 17,509.50 crore by 4.62 *per cent*. Revenue Receipts were ₹ 14,274.14 crore as against the BEs of ₹ 15,231.79 crore, showing a shortfall of 6.29 *per cent* (₹ 957.65 crore) over the estimates. Shortfall over BEs was particularly noticeable in Grants-in-Aid and Contributions (₹ 1,985.10 crore, 29 *per cent*), Tax Revenue (₹ 278.85 crore, 11 *per cent*) and Non-Tax Revenue (₹ 169.45 crore, 24 *per cent*).

On the expenditure side, Revenue Expenditure of the State during 2021-22 was ₹ 13,620.22 crore, which was higher by 18.45 *per cent* over the previous year. In comparison to the BEs, it fell short of by 2.41 *per cent*.

Capital Expenditure in 2021-22 was ₹ 2,837.12 crore which was higher by 56 *per cent* over the previous year. However, as percentage of GSDP, capital outlay was a mere 7.50 *per cent*. Similarly, capital outlay of ₹ 2,751.79 crore *vis-à-vis* BEs was less by 2.30 *per cent* (₹ 64.71 crore) during the year.

During 2021-22, a major jump of ₹1,578.06 crore was noticed in Government's borrowings (₹ 4,019.95 crore), an increase of 64.62 per cent over the previous year (₹ 2,441.89 crore). It was further noticed that the borrowings during the year exceeded the BEs (₹ 2247.54 crore) by 78.86 per cent.

In the overall analysis, it can be seen that the increase in both revenues and expenditure indicated that the state's economic growth was picking up after a two year period of slow down during 2019-20 and 2020-21.

1.4.3 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. **Table 1.5** presents the summarised position of assets and liabilities.

Table 1.5: Summarised position of Assets and Liabilities

(₹ in crore)

Liabilities					Assets				
		2020-21	2021-22	Increase (per cent)		2020-21	2021-22	Increase (per cent)	
Consolidated Fund									
A	Internal Debt	9,931.96	11,244.83	13.22	A	Gross Capital Outlay	16,710.54	19,462.32	16.47
	Market loans	8,619.50	9,917.50	15.06		Investment in shares of Companies, etc.	2,650.39	2,657.07	0.25
	Loans from other institutions	1,312.46	1,327.33	1.13		Other Capital Outlay	14,060.15	16,805.25	19.52
B	Loans and Advances from GoI	430.28 ³	921.15 ⁴	114.08	B	Loans and Advances	920.88	981.81	6.62
Contingency Fund		305.00	505.00	65.57	Contingency Fund		305.00	505.00	-
Public Account									
A	Small Savings, Provident Funds, etc.	2,125.85	2,272.72	6.91	A	Advances	1.81	1.81	0.00
B	Deposits	1,066.64	1,090.37	2.22	B	Remittance	-	-	-
C	Reserve Funds	664.39	899.12	35.33	C	Suspense and Miscellaneous	88.88	139.20	56.62
D	Remittances	82.95	83.43	0.58	Cash balance (incl. investment in Earmarked Fund)		769.12	651.53	-15.29
Total		3,939.83	4,345.64	10.30	Total		859.81	792.54	-7.82
Surplus in Revenue Account		4,189.16	4,725.05						
Total		18,796.23	21,741.67		Total		18,796.23	21,741.67	

Source: Finance Accounts 2021-22.

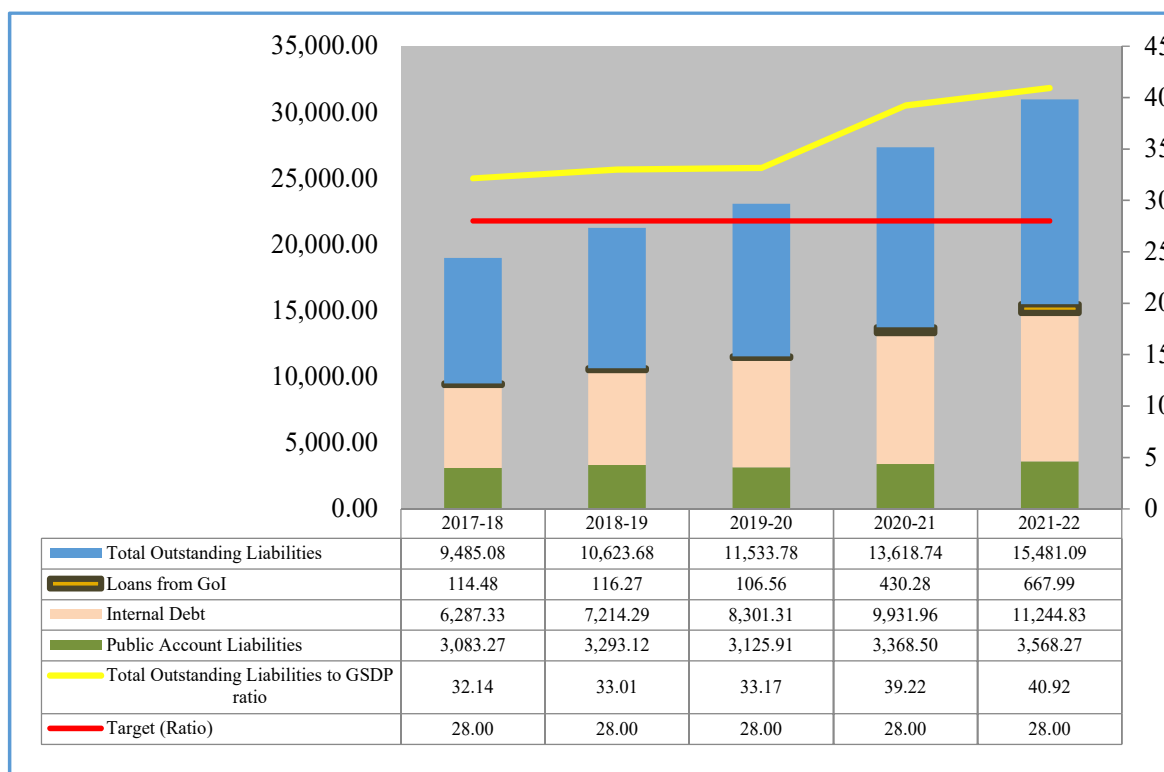
³ Meghalaya received back-to-back loans of ₹ 112 crore in lieu of GST compensation under the debt receipts with no repayment liability of the State.

⁴ Includes an amount of ₹ 253.16 crore (₹ 112 crore in 2020-21 and ₹ 141.16 crore in 2021-22) Back to Back loan by GoI in lieu of GST Compensation shortfall which will not be treated as debt of the State for any norms which may be prescribed by the Finance Commission, etc.

Liabilities on the Consolidated Fund of State, which include market loans and loans raised from financial institutions as well as loans and advances received from the GoI amounted to ₹ 12,165.98 crore, which is a sum to total internal debt and GoI loans, *i.e.* (₹ 11,244.83 crore + ₹ 921.15 crore). The increase in total liabilities was 17.41 *per cent*, over the previous year, total liabilities being ₹ 10,362.24 crore (₹ 9,931.96 crore + ₹ 430.28 crore) in 2020-21. This was primarily due to increase in loans and advances from the GoI⁵ (114.08 *per cent*) and market loans⁶ (15.06 *per cent*). After excluding the back-to-back loan of ₹ 112.00 crore and ₹ 141.16 crore by GoI which will not be treated as debt of the State for any norms which may be prescribed by the Finance Commission during 2020-21 and 2021-22 respectively, the increase in loans and advances from the GoI was significantly higher by ₹ 461.71 crore (145.06 *per cent*) as compared to previous year.

Charts 1.4 depicts the trends in fiscal liabilities and total liabilities to GSDP ratio during the five-year period 2017-22.

Chart 1.4: Trends in Fiscal Liabilities and Total Liabilities to GSDP Ratio



Source: Finance Accounts 2021-22.

⁵ Loans and advances from GoI includes Loans for State/Union Territory Plan Schemes, Loan under Scheme for Special Assistance to States for Capital Expenditure, Loans for Centrally Sponsored Plan Schemes and Back -to-Back Loan to States in lieu of GST Compensation Shortfall.

⁶ Market loans include: Loans from State Bank of India, Life Insurance Corporation, General Insurance Corporation, National Bank for Agriculture and Rural Development, Compensation and other bonds, Ways and Means Advances, Special Securities issued to National Social Securities Fund, Loans from NCDC and Loans from other Institutions.

Outstanding liabilities of the State increased from ₹ 9,485.08 crore as on 31 March 2018 to ₹ 15,481.09⁷ crore as on 31 March 2022. Compared to previous year, the outstanding liabilities at the end of 2021-22 increased by 13.67 *per cent* (₹ 1,862.35 crore).

The State failed to achieve the target of 28 *per cent* (Total Outstanding Liabilities to GSDP ratio) as set by the Meghalaya Fiscal Responsibility and Budget Management (MFRBM) Act, 2006 during the period 2017-18 to 2021-22.

1.5 Fiscal Balance: Achievement of deficit and total debt targets

The objective of prudent budget management is to achieve a healthy fiscal balance which while promoting economic growth prevents the economy from getting into a debt trap. The ways in which the deficit is financed and the resources raised are applied, are important pointers to its fiscal health.

This section presents trends, nature and magnitude of deficits and the manner of financing these deficits, and also the assessment of actual levels of revenue and Fiscal Deficits *vis-à-vis* targets set under MFRBM Act/ Rules for the financial year 2021-22. Three key fiscal parameters – Revenue, Fiscal and Primary Deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period.

1. Revenue Deficit/Surplus - Refers to the gap between Revenue Expenditure and Revenue Receipts.

2. Fiscal Deficit/Surplus - This is the difference between the Revenue Receipts *plus* Non-Debt Capital Receipts and the Total expenditure. Fiscal Deficit is reflective of the total borrowing requirements of Government.

3. Primary Deficit/Surplus - Primary Deficit is measured as Fiscal Deficit less interest payments.

In accordance with the recommendations of XII FC, Government of Meghalaya (GoM) has enacted the MFRBM Act, 2006. The performance of the State during the period 2017-18 to 2021-22 in terms of key fiscal targets set for selected parameters as per the MFRBM Act, as amended⁸ *vis-à-vis* achievements are given in **Table 1.6**.

Table 1.6: Compliance with provisions of MFRBM Act

Fiscal Parameters	Fiscal targets set in the Act	Achievement				
		2017-18	2018-19	2019-20	2020-21	2021-22
Revenue Deficit (-) / Surplus (+) (₹ in crore)	Maintain Revenue	850.80	-537.32	-151.60	-815.38	653.92
	Surplus	✓	✗	✗	✗	✓
Fiscal Deficit (as percentage of GSDP)	Three <i>per cent</i> (2017-18 to 2018-19)	237.24 (0.80)	2,026.08 (6.30)	1,103.77 (3.18)	2,603.56 (7.79)	2,158.79 (5.71)
	4.1 ⁹ <i>per cent</i> (2019-20)	✓	✗	✓	✗	✗

⁷ Excludes an amount of ₹ 253.16 crore (₹ 112.00 crore + ₹ 141.16 crore) Back to Back loan by GoI in lieu of GST Compensation shortfall which will not be treated as debt of the State for any norms which may be prescribed by the Finance Commission *etc*.

⁸ September 2015, March 2020, March 2021 and September 2022.

⁹ As per MFRBM (Amendment) Act, 2020.

Fiscal Parameters	Fiscal targets set in the Act	Achievement				
		2017-18	2018-19	2019-20	2020-21	2021-22
	5.00 ¹⁰ per cent (2020-21) 4.00-4.5 ¹¹ per cent (2021-22)					
Ratio of total outstanding debt to GSDP (in per cent)	28 per cent	32.14	33.01	33.17	39.22*	40.92 ⁺
		X	X	X	X	X

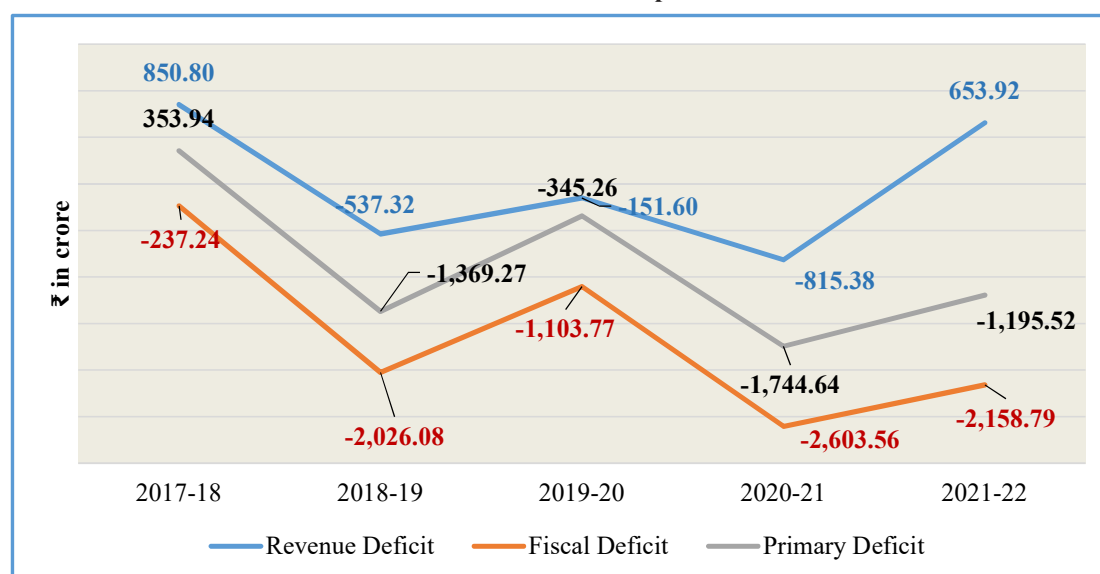
*Excludes Back to Back loan of ₹ 112 crore.

+Excludes Back to Back loan of ₹ 253.16 crore (₹ 112.00 crore + ₹ 141.16 crore).

The State Government achieved Revenue Surplus of ₹ 653.92 crore during the year after a gap of three years *i.e.*, since 2018-19. However, Fiscal Deficit-GSDP ratio and Debt-GSDP ratio as targeted in the MFRBM could not be met. Fiscal Deficit at 5.71 per cent of GSDP was above the target (4 to 4.5 per cent) set under MFRBM (Amendment) Act, 2022. With regard to Debt-GSDP ratio, the State could not meet the projections in any of the five years since 2017-18.

Chart 1.5 depicts the trends in surplus/ deficit parameters during the five-year period 2017-22.

Chart 1.5: Trends in deficit parameters



During 2021-22, though the Fiscal Deficit as per cent to GSDP decreased from 7.79 per cent in 2020-21 to 5.71 per cent, it was higher than the fiscal target of 4 to 4.5 per cent set in the MFRBM (Amendment) Act, 2022.

During the five-year period, the ratio of total outstanding debt as percentage of GSDP has steadily been above the targeted ratio of 28 per cent of GSDP. During 2020-21, it increased to 39.22 per cent over 33.17 per cent in 2019-20. Similarly, during 2021-22, it rose by 1.70 per cent to 40.92 per cent over the previous year.

¹⁰ As per MFRBM (Amendment) Act, 2021.

¹¹ As per the MFRBM (Amendment) Act, 2022.

1.6 Fiscal Policy Statements (FPSs)

As per the MFRBM Act, 2006, the State Government shall in each financial year lay before the State Legislature, Fiscal Policy Statement (FPS) along with the Annual Budget. The FPS has to set forth a three-year rolling target for the prescribed fiscal indicators.

Table 1.7 indicates the variation between the projections made for 2019-20, 2020-21 and 2021-22 in FPSs presented to the State Legislature along with the Annual Budget for 2019-20, 2020-21 and 2021-22 and Actuals for the year.

Table 1.7: Actuals vis-à-vis projection in FPSs for 2019-22

(₹ in crore)

Sl. No.	Fiscal Variables	Projection as per MTFPS			Actuals (Variations in per cent)		
		2019-20	2020-21	2021-22	2019-20	2020-21	2021-22
1	Tax Revenue (i + ii)	7,512.17	8,375.96	7,684.11	2,421.36 (-67.77)	2,595.73 (-69.01)	8,881.01 (15.58)
	(i) Own Tax Revenue	2,089.80	2,376.98	2,579.23	1,891.25 (-9.50)	2,072.56 (-12.81)	2,300.38 (-10.81)
	(ii) Share of Central Taxes	5,422.37	5,998.98	5,104.88	530.11 (-90.22)	523.17 (-91.28)	6,580.63 (28.91)
2	Non-Tax Revenue	600.57	690.29	694.03	4,211.78 (601.30)	4,551.63 (559.38)	524.58 (-24.42)
3	GIA from GoI	6,325.22	6,286.34	6,853.65	2,780.38 (-56.04)	3,535.88 (-43.75)	4,868.55 (-28.96)
4	Revenue Receipts (1+2+3)	14,437.96	15,352.59	15,231.79	9,413.52 (-34.80)	10,683.24 (-30.41)	14,274.14 (-6.29)
5	Revenue Expenditure	13,699.48	14,427.58	13,956.47	9,565.12 (-30.18)	11,498.62 (-20.30)	13,620.22 (-2.41)
6	Revenue Deficit (-) / Surplus (+) (4-5)	738.48	925.01	1,275.32	-151.60 (-120.53)	-815.38 (-188.15)	653.92 (-48.73)
7	Fiscal Deficit (-) / Surplus (+)	-1,322.84	-1,535.62	-1,570.39	-1,103.77 (-16.56)	-2,603.56 (-69.87)	-2,158.79 (37.47)
8	Debt-GSDP ratio (per cent)	30.64	37.39	39.55	33.17 (8.26)	39.22 (4.89)	40.92 (3.46)
9	GSDP growth rate at current prices (per cent)	9.48	-8.34	8.89	8.06 (-14.98)	-0.15 (-98.20)	8.96 (0.79)

Source: Finance Accounts 2019-22 and State Budget 2020-23.

As can be seen from the table above, the projections made in FPSs relating to two key fiscal parameters *i.e.*, Revenue Deficit and Fiscal Deficit deviated significantly from (-) 49 per cent to (-)188.15 per cent and (-)69.87 per cent to 37.47 per cent respectively during 2019-22 as compared to the projections. Projections relating to Debt-GSDP ratio and growth rate of GSDP could not be met, with the years ending at a higher Debt to GSDP ratio, and with lower growth in GSDP than was projected in the FPSs.

1.7 Deficits after examination in Audit

Table 1.8 depicts the assessment of actual surplus/deficit after taking into account incorrect classifications/ bookings by the State Government in its accounts of 2021-22.

Table 1.8: Revenue and Fiscal Deficit, post examination by Audit

Item	Impact on Revenue Surplus		Impact on Fiscal Deficit	
	Over-statement (₹ in crore)	Under-statement (₹ in crore)	Over-statement (₹ in crore)	Under-statement (₹ in crore)
Non-payment of interest on the balances under interest bearing Reserve Funds and Deposits: NPS: ₹ 0.06 crore; SCAF: ₹ 5.47 crore; and SDRF: ₹ 0.28 crore	5.81	-	-	5.81
Misclassification between revenue and capital	18.11	2.00	-	-
Short Government contribution to New-Pension Scheme.	1.29	-	-	1.29
Non-transfer towards State Disaster Mitigation Fund (SDMF)	13.20	-	-	13.20
Total (Net) Impact	36.41 (Overstatement)		20.30 (Understatement)	

Source: Notes to Accounts of Finance Accounts, 2021-22.

In view of the above, the Revenue Surplus and Fiscal Deficit of the State which were ₹ 653.92 crore and ₹ 2,158.79 crore would actually be ₹ 617.51 crore and ₹ 2,179.09 crore respectively.

1.8 Conclusion

The State achieved a growth rate of 8.96 *per cent* of GSDP during 2021-22, as compared to negative growth rate of 0.15 *per cent* during 2020-21. The GSDP growth rate indicated that the economy had achieved the growth levels of pre pandemic years during 2018-19 and 2019-20, after the downturn of 2020-21.

However, the increase of GSDP of Meghalaya (8.96 *per cent*) was lower than of national GDP (19.51 *per cent*), indicating that there is a need for further infusion of capital investment, especially in the services sector which is a major contributor to the GSDP.

Both revenue receipts and revenue expenditure were higher than the previous year, though in comparison to the budget estimates they fell short by 6.29 *per cent* and 2.41 *per cent* respectively. Higher growth of revenues – both tax and non-tax revenues, and increase in Grants-in-Aid and other contributions, as well as enhanced share of union taxes and duties contributed towards revenue surplus of ₹ 653.92 crore. The budget estimates, however, had projected a surplus of ₹ 1,275.32 crore, indicating that the government had expected a higher revenue collection, but the actual tax revenue fell short by 11 *per cent* and non-tax revenue was short of budget estimates by 24 *per cent*. The overall shortfall in revenue receipts over budget estimates was more than five *per cent* and was pegged at 6.29 *per cent*. While the state's share in union taxes and duties is a function of overall economic growth at national level leaving little fiscal space for the State government to manoeuvre, the State has a considerable dependence on Grants-in-Aid and other contributions from the Union. Thus, a shortfall of 29 *per cent* in the receipts under grants in aid, over estimated value, is bound to have impacted the allocations to key sectors of the economy. Surplus on revenue

account was partly a result of actual revenue expenditure being 2.42 *per cent* lower than the budget estimates.

In the capital budget, the receipts of ₹ 4,044.36 crore exceeded the BEs by ₹ 1,766.65 crore during the year, showing an increase of 78 *per cent* over the estimated values. However, both Capital Expenditure at ₹ 2,837.12 crore and capital outlay at ₹ 2,751.79 crore, were short of the BEs by ₹ 529.75 crore and ₹ 64.71 crore respectively. The overall capital expenditure as percentage of GSDP was 7.50 *per cent*, as compared to 5.23 *per cent* in the previous year. This indicated that borrowed capital was being channelled towards financing of the government's revenue expenditure.

As far as fiscal deficit was concerned, at 5.71 *per cent* during 2021-22, it was higher than the target of 4-4.5 *per cent* set in the MFRBM (Amendment) Act, 2022. In monetary terms, the Fiscal Deficit was pegged at ₹ 2,158.79 crore which was higher by ₹ 97.41 crore (4.73 *per cent*) than the assessment made in the BEs of ₹ 2,061.38 crore. The Primary Deficit was pegged at ₹ 1,195.52 crore which was higher by ₹ 181.00 crore (17.84 *per cent*) than the assessment made in the BEs, indicating a growing interest payment burden on the state's finances. Over the last five-year period, the ratio of total outstanding debt as percentage of GSDP has consistently been above the target ratio of 28 *per cent* of GSDP.

1.9 Recommendations

- *In order to achieve comparative growth rate as at the national level, the State Government should make efforts to improve its capital spending which will act as a facilitator for private investment in all sectors of the economy.*
- *State Government needs to make efforts to achieve the projections/ targets on major fiscal parameters, made in the Meghalaya FRBM Act through prudent financial management.*

