
CHAPTER-I

OVERVIEW

CHAPTER I OVERVIEW

1.1 Profile of the State

The State of Manipur is located in the north-eastern part of India. The total geographical area of the State is 22,327 sq. km. comprising the central valley and the hills surrounding the valley. There are 16 districts in the State, of which, six districts are located in the valley and ten districts are located in the hills. As per Census of India 2011 Population Projections for India and States 2011-36, the State's population is projected to increase from 29.03 lakh in 1st October 2012 to 32.09 lakh in 1st October 2022 showing a decadal population growth of 10.54 *per cent* against National Decadal Growth rate of 12.12 *per cent*. Out of the total projected population of 32.09 lakh, 10.20 lakh people (31.79 *per cent*) live in urban areas and 21.59 lakh (67.28 *per cent*) in rural areas. The density of population is 143 persons per sq. km as per projected population as on 1st October 2022. The details are given in **Appendix 1.1 (Part C)**.

1.1.1 Gross State Domestic Product

Gross State Domestic Product (GSDP) is the market value of all officially recognised final 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.

Trends in the annual growth of the GSDP, GDP and the rate of growth during 2017-22 are indicated in **Table 1.1**:

Table 1.1: GSDP of the State, All India GDP and the rate of growth during 2017-22

| Year | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 (P) |
|---|-------------|--------------------------|-------------------------|--------------------------|-----------------|
| GDP* (₹ in crore) | 1,70,90,042 | 1,88,99,668 [^] | 20,074,857 [#] | 1,98,00,915 [@] | 2,36,64,638 (P) |
| Growth rate of GDP (<i>per cent</i>) | 11.03 | 10.59 | 6.22 | -1.36 | 19.51 |
| Per capita GDP (in ₹) | | | | | 1,46,087 |
| GSDP *(₹ in crore) | 25,789 | 27,388 | 31,297(Q) | 34,110(A) | 37,761(P) |
| Growth rate of GSDP (<i>per cent</i>) | 21.11 | 6.20 | 14.27 | 8.99 | 10.70 |
| Per capita GSDP (in ₹) | | | | | 1,05,167.00 |

Source: Ministry of Statistics and Programme Implementation, GoI and Dept. of Economics and Statistics, Manipur;

*At current prices, [^] Third Revised Estimate, [#] 2nd Revised Estimate, [@] 1st Revised Estimate, Q – Quick Estimates, A – Advanced Estimates, P-Provisional Estimates.

The GSDP increased by ₹ 3,651.00 crore (10.70 *per cent*) from ₹ 34,110.00 crore in 2020-21 to ₹ 37,761.00 crore in 2021-22. During the last five years, there was a steady increase in GSDP from ₹ 25,789.23 crore in 2017-18 to ₹ 37,761.00 crore in 2021-22. As compared to 2020-21, growth rate has increased from 8.99 *per cent* in 2020-21 to 10.70 *per cent* in 2021-22.

The growth rate of GSDP was lower than the GDP growth rate in 2021-22. The per capita GSDP was lower than the per capita GDP in 2021-22. As compared with the

neighbouring States, Manipur's GSDP (2021-22) was more than that of Sikkim, Arunachal Pradesh, Mizoram and Nagaland, as shown in **Table 1.2**. The Compounded Annual Growth Rate (CAGR) of Manipur during 2012-13 to 2021-22 was 11.89 per cent. As compared with the CAGR of the neighbouring States during 2012-13 to 2021-22, four states viz., Mizoram, Tripura, Sikkim, and Assam had CAGR higher than Manipur while the CAGR of three states viz., Meghalaya, Nagaland and Arunachal Pradesh had CAGR lower than that of Manipur. This indicates that during 2012-13 to 2021-22, the economic growth of the state as compared to all the neighbouring states stood at 4th position and was on a growth trajectory.

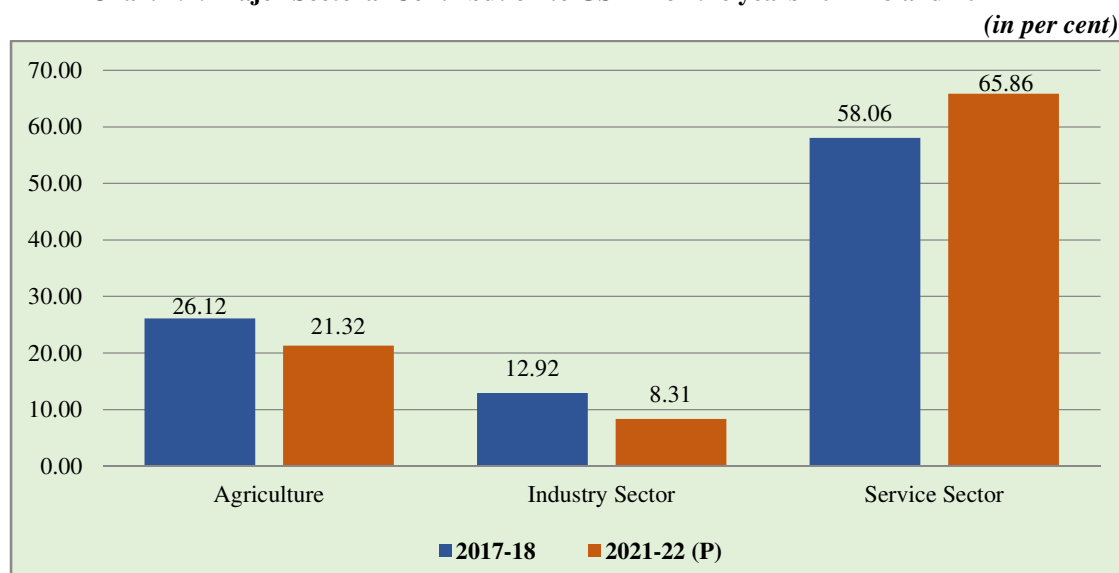
Table 1.2: Regional comparisons of GSDP of 2021-22 and CAGR (2012-13 to 2021-22)

(₹ in crore)

| State | GSDP | CAGR (2012-13 to 2021-22) |
|-------------------|---------------|---------------------------|
| Mizoram | 25796 | 13.33 |
| Tripura | 64,778 | 12.94 |
| Sikkim | 36,825 | 12.92 |
| Assam | 4,33,925 | 11.97 |
| Manipur | 37,761 | 11.89 |
| Arunachal Pradesh | 33,459 | 11.51 |
| Nagaland | 32,424 | 9.68 |
| Meghalaya | 37,830 | 6.28 |

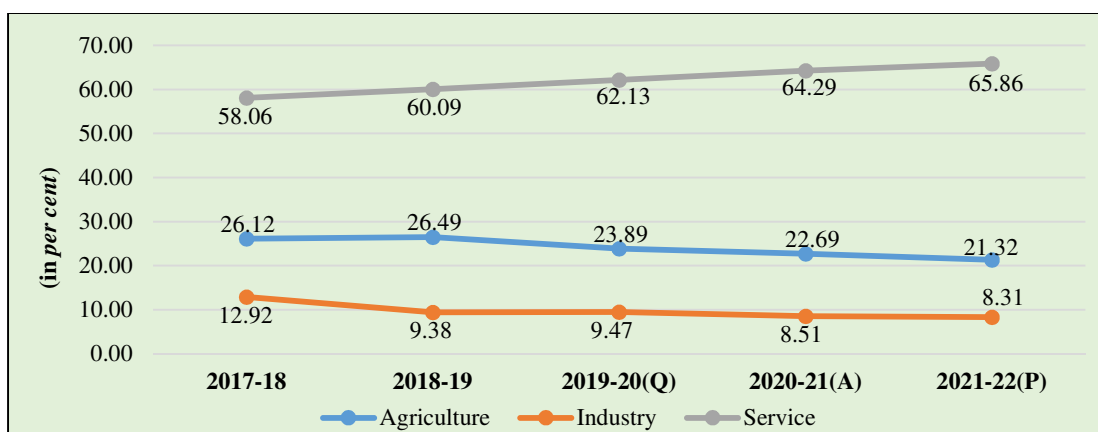
Changes in sectoral contribution to the GSDP is also important to understand the changing structure of economy. The economic activity is generally divided into Primary, Secondary and Tertiary sectors, which corresponds to the Agriculture, Industry and Service sectors respectively. A major sectoral analysis of GSDP of Manipur for the period 2017-22 is given in **Charts 1.1** and **1.2**.

Chart 1.1: Major Sectoral Contribution to GSDP for the years 2017-18 and 2021-22



Source: Department of Economics and Statistics, Manipur; P – Projected Estimates.

Chart 1.2: Sectoral growth of State's GSDP for the years 2017-18 to 2021-22



Source: Department of Economics and Statistics, Manipur; Q – Quick Estimates, A–Advanced Estimates, P–Projected Estimates.

As can be seen from the charts above, Service Sector was the major contributor to GSDP during the period 2017-22 with a steady growth which ranged from 58.06 to 65.86 per cent. Agriculture was the second largest contributor but has shown a decline in contribution from 26.49 to 21.32 per cent during the period and there was a decrease (4.61 per cent) in the Industry Sector in 2021-22 as compared to 2017-18.

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), Manipur prepares Finance Accounts and Appropriation Accounts of the State annually, from the vouchers, challans and initial and subsidiary accounts rendered by the Treasuries, State Government offices and departments responsible for keeping of such accounts, and 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 budget of the State, 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 Fourteenth Finance Commission (XIV FC), Fifteenth Finance Commission (XV FC), Manipur Fiscal Responsibility and Budgetary Management (MFRBM) Act, 2005, and best practices and guidelines of the Government of India (GoI).

This Chapter provides a broad perspective of the finances of the State of Manipur during 2021-22 and an analysis of critical changes in the major fiscal aggregates in

comparison to the previous years, keeping in view the overall trends during the last five years (2017-22). The layout of Finance Accounts, methodology adopted for assessment of fiscal position, profile of the State, *etc.*, are given in **Appendix 1.1 (Part A to D)**.

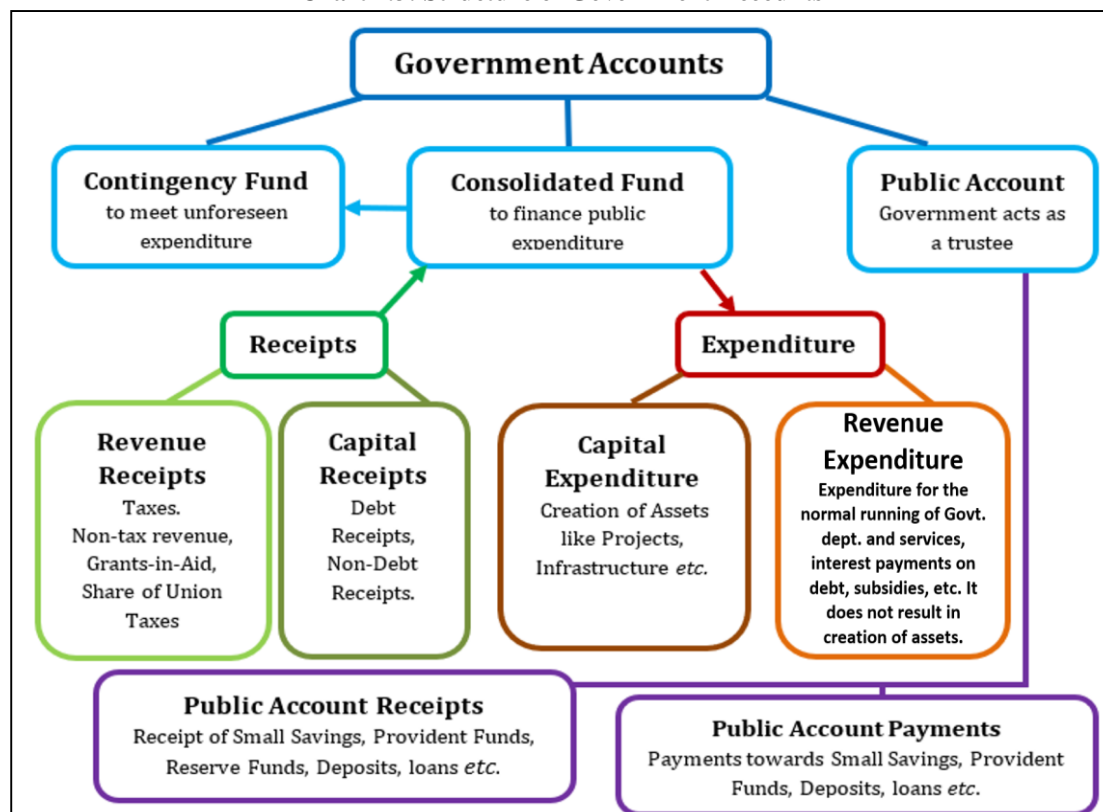
1.3 Structure of Government Accounts and Budgetary Processes

1.3.1 Structure of Government Accounts

Government Accounts are maintained in three parts for maintaining the records of all sorts of financial transactions *viz.* Consolidated Fund, Contingency Fund and Public Account. ‘Consolidated Fund of the State’ includes Revenue Receipts and Expenditure; Capital Receipts and Disbursements; Debts, and Loans and Advances. The ‘Contingency Fund of the State’ 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, under appropriation made by law. The fund is recouped by debiting the expenditure to the concerned functional major head relating to the Consolidated Fund of the State. 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, Advances, Reserve Funds, Remittances and Suspense heads. 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.

The structure of Government Accounts is given in **Chart 1.3**.

Chart 1.3: Structure of Government Accounts



1.3.2 Budgetary Processes

In terms of Article 202 of the Constitution of India, the Governor of State shall cause to be laid before the State Legislature, a statement of the estimated receipts and expenditure of the State for the year, 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.

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 Snapshot of Finances

The following **Table 1.3** presents summary of the State's fiscal transactions during the year 2021-22 *vis-à-vis* Budget Estimates of 2021-22 and Actuals of the previous year 2020-21, while **Appendix 1.2** provides details of receipts and disbursement as well as the overall fiscal position during 2021-22.

Table 1.3: Summary of Fiscal Transactions during 2021-22

(₹ in crore)

| Sl. No. | Components | 2020-21 (Actuals) | 2021-22 (Budget Estimate) | 2021-22 (Actuals) | Percentage of Actuals to B.E. | Percentage of Actuals to GSDP |
|---------|------------------------------------|-------------------|---------------------------|-------------------|-------------------------------|-------------------------------|
| 1 | Tax Revenue | 5,566.46 | 6,820.03 | 7,658.15 | 112.29 | 20.28 |
| (i) | Own Tax Revenue | 1,294.49 | 2,054.60 | 1,648.50 | 80.23 | 4.37 |
| (ii) | Share of Union Taxes/Duties | 4,271.97 | 4,765.43 | 6,009.65 | 126.11 | 15.91 |
| 2 | Non-Tax Revenue | 148.07 | 387.55 | 108.13 | 27.90 | 0.29 |
| 3 | Grants-in-Aid and Contributions | 7,268.12 | 14,312.46 | 6,324.72 | 44.19 | 16.75 |
| 4 | Revenue Receipts (1+2+3) | 12,982.65 | 21,520.04 | 14,091.00 | 65.48 | 37.32 |
| 5 | Recovery of Loans and Advances | 3.30 | 3.79 | 2.39 | 63.06 | 0.01 |
| 6 | Other Receipts | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 7 | Borrowings and other Liabilities* | 1,655.22 | 3,976.47 | 1,857.89 | 46.72 | 4.92 |
| 8 | Capital Receipts (5+6+7) | 1,658.52 | 3,980.26 | 1,860.28 | 46.74 | 4.93 |
| 9 | Total Receipts (4+8) | 14,641.17 | 25,500.30 | 15,951.28 | 62.55 | 42.24 |
| 10 | Revenue Expenditure | 12,428.47 | 19,970.13 | 12,642.15 | 63.31 | 33.48 |
| 11 | Interest payments | 831.60 | 629.34 | 690.80 | 109.77 | 1.83 |
| 12 | Capital Expenditure | 2,449.38 | 5,530.18 | 3,254.42 | 58.85 | 8.62 |
| 13 | Capital outlay | 2,439.18 | 5,525.98 | 3,252.79 | 58.86 | 8.61 |
| 14 | Loan and Advances | 10.20 | 4.20 | 1.63 | 38.81 | 0.00 |
| 15 | Total Expenditure (10+12) | 14,877.85 | 25,500.31 | 15,896.57 | 62.34 | 42.10 |
| 16 | Revenue Surplus (4-10) | 554.18 | 1,549.91 | 1,448.85 | 93.48 | 3.84 |
| 17 | Fiscal Deficit {15-(4+5+6)} | 1,891.90 | 3,976.48 | 1,803.18 | 45.35 | 4.78 |
| 18 | Primary Deficit (17-11) | 1,060.30 | 3,347.14 | 1,112.38 | 33.23 | 2.95 |

Source: Finance Accounts, Annual Financial Statement.

*Sum of Net Public Debt, Net Contingency Fund, Net Public Account and Net Cash Balance.

The following are the significant changes noticed during 2021-22 over the previous year:

- Revenue Receipts increased by 8.54 *per cent* (₹ 1,108.35 crore) over the previous year. The increase was mainly due to increase in State's Share of Union Taxes/Duties (₹ 1,737.68 crore) and Own Tax Revenue (₹ 354.01 crore). However, the State could not achieve the projections of Budget Estimates for Revenue Receipts. The actual receipts was 65.48 *per cent* against the budget provision.
- State's Share of Union Taxes/Duties increased by ₹ 1,737.68 crore (40.68 *per cent*) in comparison to the previous year. It was due to increase in Central Goods & Services Tax (₹ 542.43 crore), Corporation Tax (₹ 527.45 crore) and Taxes on Income Other than Corporation Tax (₹ 438.55 crore).
- Revenue Expenditure increased by 1.72 *per cent* (₹ 213.68 crore) over the previous year. The increase was mainly due to increase in General Services (₹ 843.91 crore) and Social Services (₹ 228.33 crore). The increase was offset by decrease of expenditure under economic services (₹ 786.83 crore)
- Revenue Surplus increased by 161.44 *per cent* (₹ 894.67 crore) over the previous year mainly due to increase in State's Share of Union Taxes/Duties (₹ 1,737.68 crore) and Own Tax Revenue (₹ 354.01 crore) partly offset by increase in Revenue Expenditure on Pensions and other Retirement Benefits (₹ 701.44 crore), General Education (₹ 193.54 crore), Police (₹ 177.50 crore) and Medical and Public Health (₹ 163.74 crore).
- Capital Expenditure increased by 32.87 *per cent* (₹ 805.04 crore) over the previous year expenditure. It was mainly due to increase in Capital Outlay on Other Rural Development (₹ 839.58 crore), Capital Outlay on Water Supply and Sanitation (₹ 175.35 crore), Capital Outlay on Other Special Areas Programmes (₹ 155.57 crore), Capital Outlay on Education, Sports, Arts and culture (₹ 53.05 crore) and Capital Outlay on Roads and Bridges (₹ 38.57 crore).
- Total Expenditure increased by 6.85 *per cent* (₹ 1,018.72 crore) over the previous year. It was due to increase in both Revenue Expenditure (₹ 213.68 crore) and Capital Expenditure (₹ 805.04 crore).
- Fiscal Deficit decreased by 4.69 *per cent* (₹ 88.72 crore) as compared to that of the previous year. It was mainly due to lower rate of increase in total expenditure by 23.73 *per cent* as compared to the previous year.

An analysis of the State's Own Tax Revenue (OTR) *vis-à-vis* the North Eastern States (NER) is indicated in **Table 1.4**.

Table 1.4: Regional Comparisons of Own Tax Revenue of 2020-21 and 2021-22

(₹ in crore)

| State | 2020-21 | | | 2021-22 | | |
|-------------------|-----------------|-------------------|--|-----------------|-------------------|--|
| | OTR | Total Tax Revenue | Percentage of OTR to Total Tax Revenue | OTR | Total Tax Revenue | Percentage of OTR to Total Tax Revenue |
| Assam | 17,133.61 | 35,762.93 | 47.91 | 19,533.10 | 47,683.65 | 40.96 |
| Tripura | 2,332.44 | 6,550.89 | 35.6 | 2,616.31 | 8,693.83 | 30.09 |
| Meghalaya | 2,072.56 | 6,624.19 | 31.29 | 2,300.38 | 8,881.01 | 25.9 |
| Manipur | 1,294.49 | 5,512.46 | 23.48 | 1,648.50 | 7,658.15 | 21.53 |
| Arunachal Pradesh | 1,431.10 | 11,903.68 | 12.02 | 1,639.79 | 16,283.69 | 10.07 |
| Nagaland | 1,022.74 | 4,431.99 | 23.08 | 1,300.89 | 6,176.35 | 21.06 |
| Sikkim | 989.45 | 3,291.72 | 30.06 | 1,254.41 | 4,541.96 | 27.62 |
| Mizoram | 647.56 | 3658.11 | 17.7 | 853.94 | 5076.80 | 16.82 |

As compared with the neighbouring States, Manipur's OTR in terms of percentage was more than those of Arunachal Pradesh, Nagaland Sikkim and Mizoram during 2020-21 and more than those of Arunachal Pradesh, Nagaland and Mizoram during 2021-22 as shown in **Table 1.4**. During 2021-22, OTR of the State as compared to NER States stood at 4th position and was on a growth trajectory. During 2021-22, in terms of percentage of OTR to total Tax Revenue, the State stood at 5th position with 21.53 *per cent* among the NER States.

1.5 Snapshot of Assets and liabilities of the Government

1.5.1 Composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditures incurred. **Appendix 1.3** gives an abstract of such liabilities and assets as on 31 March 2022, compared with the corresponding position on 31 March 2021. Liabilities consist mainly of internal borrowings, Loans and Advances from Central Government and receipts from Public Account (Small Savings, Provident Funds *etc.*). The assets comprise mainly of Capital outlay, Loans and Advances given by the State Government and Cash Balance.

A summarised position of Assets and Liabilities for the years 2020-21 and 2021-22 is shown in **Table 1.5**:

Table 1.5: Summarised position of Assets and Liabilities for the years 2020-21 and 2021-22

(₹ in crore)

| Liabilities | | | | | Assets | | | | | |
|--------------------------|--------------------------------------|------------------|-------------------|--------------|---|----------------------------|----------------------------|------------------|------------------|--------------|
| | 2020-21 | 2021-22 | Per cent increase | | 2020-21 | 2021-22 | Per cent increase | | | |
| Consolidated Fund | | | | | | | | | | |
| A | Internal Debt | 8,430.65 | 9,967.15 | 18.23 | a | Gross Capital Outlay | 26,823.72 | 30,076.52 | 12.13 | |
| B | Loans and Advances from GoI | 571.09 | 784.67 | 37.40 | b | Loans and Advances | 205.21 | 204.45 | (-)0.37 | |
| Contingency Fund | | 0 | 0 | - | | | 0 | 0 | 0 | |
| Public Account | | | | | | | | | | |
| A | Small Savings, Provident Funds, etc. | 1,508.83 | 1,513.10 | 0.28 | a | Advances | 2.60 | 2.60 | 0.00 | |
| B | Deposits | 1,402.57 | 1,464.38 | 4.41 | b | Remittance | 654.15 | 695.67 | 6.35 | |
| C | Reserve Funds | 1,270.51 | 1,624.69 | 27.88 | c | Suspense and Miscellaneous | 201.90 | 215.09 | 6.53 | |
| D | Remittances | 0.00 | 0 | 0.00 | Cash balance (including investment in Earmarked Fund) | | 760.74 | 1073.19 | 41.07 | |
| | | | | | | | Total | 28,648.32 | 32,267.52 | 12.63 |
| | | | | | | | Deficit in Revenue Account | 15,464.67 | 16,913.53 | 9.37 |
| Total | | 13,183.65 | 15,353.99 | 16.46 | Total | | 13,183.65 | 15,353.99 | 16.46 | |

Reference: Statement 1 of Finance Accounts.

As could be seen from the table above, liabilities of the State Government increased by ₹ 2,170.34 crore (16.46 per cent) over the previous year. The increase was mainly due to increase in Internal Debt (₹ 1,536.50 crore) and Reserve Funds (₹ 354.18 crore) constituting 70.80 per cent and 16.32 per cent respectively of the increase in fiscal liabilities in 2021-22.

The increase in assets during 2021-22 was mainly due to increase in Gross Capital Outlay (₹ 3,252.80 crore) over the previous year by 12.13 per cent.

1.6 Achievements against Targets prescribed under FRBM Act and Rules

The State Government enacted Manipur Fiscal Responsibility and Budget Management (MFRBM) Act in August 2005 to ensure prudence in fiscal management and fiscal stability by achieving sufficient Revenue surplus, reduction in Fiscal deficit, prudent debt management consistent with fiscal sustainability and greater transparency in fiscal operations of the State. As per Manipur FRBM Rules, 2005 (framed in December 2005 and modified thereafter) framed under the Act, fiscal targets of Revenue Surplus and Fiscal Deficit, etc. were fixed.

The targets under the Act and the Rules are given in **Appendix-1.1 (Part D)**. The yearly targets are also set out in the Medium Term Fiscal Policy Statements (MTFPS) placed in the State Legislative Assembly. The targets for major fiscal variables provided in

MFRBM Act and Rules, MTFPS and actual achievements there against are depicted in Tables 1.6 and 1.7:

Table 1.6: Trends in Major fiscal parameters/variables vis-à-vis targets for the years 2017-22

| Fiscal Parameters | Fiscal targets set in the Act | Achievement (₹ in crore) | | | | |
|---|--|--------------------------|------------------|------------------|--------------------|--------------------|
| | | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
| Revenue Deficit (-)/ Surplus (+) (₹ in crore) | Revenue Surplus | 1,083.83 | 812.99 | 445.53 | 554.18 | 1,448.85 |
| | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Fiscal Deficit (as percent of GSDP) | 3 per cent | 339.86 (1.32) | 917.19 (3.35) | 708.91 (2.27) | 1,891.90 (5.55) | 1,803.18 (4.78) |
| | | ✓ | ✗ | ✓ | ✗ | ✗ |
| Ratio of total outstanding debt to GSDP (in per cent) | MFRBM Act has not provided the targets after 2014-15 | 37.09 [43.43] | 38.20 [41.66] | 36.45 [40.11] | 38.65 [42.80] | 40.66 [41.50] |
| | | ✓ | ✓ | ✓ | ✓ | ✓ |

Figures in the parenthesis [] for Outstanding Debt-GSDP Ratio is the XIV FC/XV FC projections.

Source: Finance Department, GoM.

Table 1.7: Actuals vis-à-vis projection in MTFPS during 2021-22

(₹ in crore)

| Sl. No. | Fiscal Variables | Projection as per MTFPS | Actuals | Variation |
|---------|---|-------------------------|-------------|---------------|
| | | | (2021-2022) | (in per cent) |
| 1 | Own Tax Revenue | 2,034.00 | 1,648.50 | -18.95 |
| 2 | Non-Tax Revenue | 406.00 | 108.13 | -73.37 |
| 3 | Share of Central Taxes | 4,765.00 | 6,009.65 | 26.12 |
| 4 | Grants -in-Aid from GoI | 15,743.71 | 6,324.72 | -59.83 |
| 5 | Revenue Receipts (1+2+3+4) | 22,948.71 | 14,091.00 | -38.60 |
| 6 | Revenue Expenditure | 17,334.00 | 12,642.15 | -27.07 |
| 7 | Revenue Deficit (-)/ Surplus (+) (5-6) | 5,614.71 | 1,448.85 | -74.20 |
| 8 | Fiscal Deficit (-)/ Surplus (+) | -1,350.00 | -1,803.18 | 33.57 |
| 9 | Debt-GSDP ratio (per cent) | 29.18 | 40.66 | 39.35 |
| 10 | GSDP growth rate at Current prices (per cent) | 14.00 | 10.70 | -23.55 |

Source: Finance Department, GoM and Finance Accounts.

During the year 2021-22, the State Government could achieve the target fixed under MFRBM Act for maintaining Revenue Surplus. However, the State Government could not achieve the targets fixed for Fiscal Deficit-GSDP ratio. Further, the State Government did not fix targets for Outstanding Debt-GSDP ratio in the MFRBM Act after the year 2014-15. However, outstanding Debt-GSDP ratio was within the limit of the XIV and XV Finance Commission's projections during 2017-18 to 2021-22.

The State Government could not achieve the projection of MTFPS in respect of Revenue Receipts by ₹ 8,857 crore (38.60 per cent) mainly due to underachievement of projection in Grants-in-Aid from GoI (₹ 9,418.99 crore), Own Tax Revenue (₹ 385.50 crore) and Non-Tax Revenue (₹ 297.87 crore).

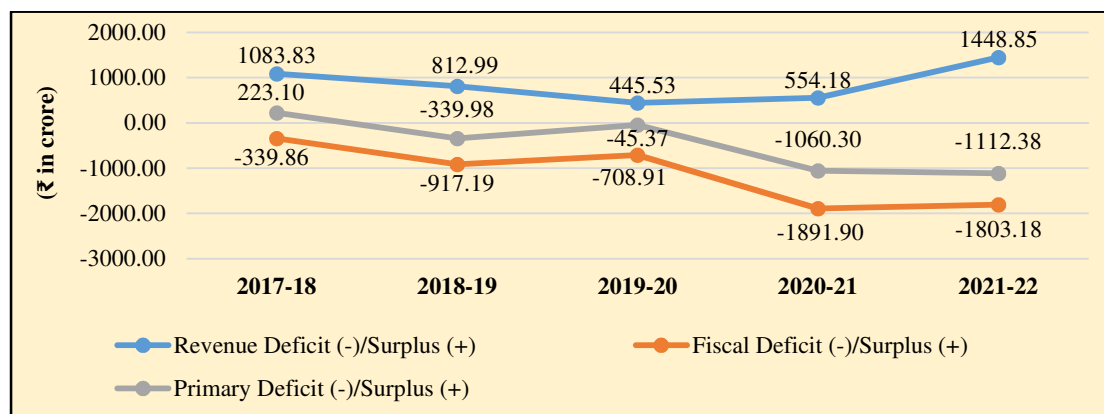
1.7 Fiscal Balance: Achievement of deficit and total debt targets

When a government spends more than it collects by way of revenue, it incurs a deficit. There are various measures that capture government deficit. Three key fiscal parameters *i.e.* Revenue, Fiscal and Primary deficit are usually used to indicate the

extent of overall fiscal imbalance in the finances of the State during a specified period. The deficit/ surplus in the Government accounts represents gap between its receipts and expenditures. The nature of deficit/surplus is an indicator of the fiscal prudence of the Government. Further, the ways in which the deficit is financed and the resources mobilised are applied are important pointers to its fiscal health.

The following **Charts 1.4** and **1.5** present the trends in deficit parameters *i.e.* Revenue, Fiscal and Primary and trends in relation to GSDP during the period 2017-22.

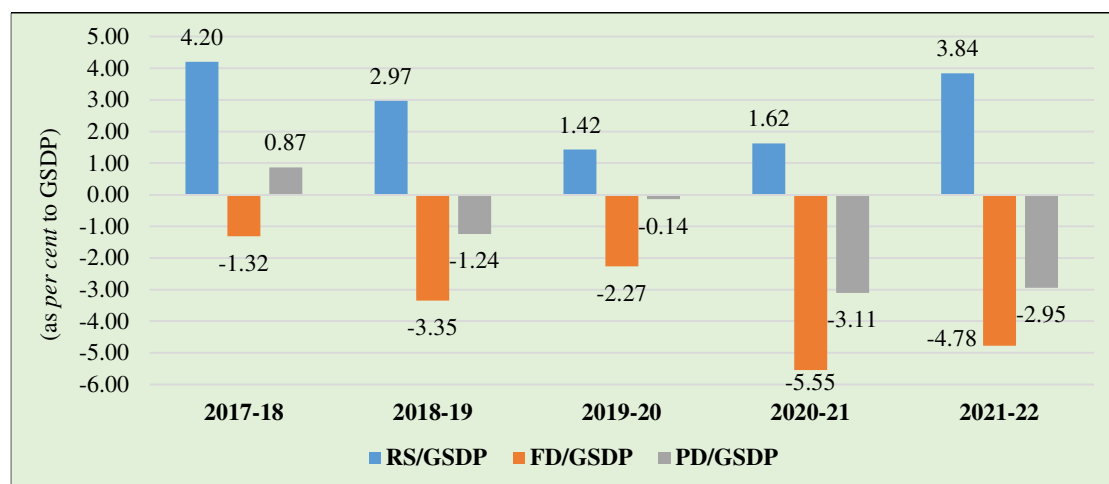
Chart 1.4: Trends in deficit parameters during 2017-18 to 2021-22



As can be seen from above chart, the State was able to maintain Revenue Surplus during the last five years 2017-22, ranging from ₹ 445.53 crore to ₹ 1448.85 crore. As compared to 2020-21, Revenue Surplus increased by ₹ 894.67 crore in 2021-22 mainly due to increase in State's Share of Union Taxes/Duties (₹ 1,737.68 crore) and Own Tax Revenue (₹ 354.01 crore).

Though the Fiscal Deficit decreased by ₹ 88.71 crore (from ₹ 1,891.90 crore in 2020-21 to ₹ 1,803.18 crore in 2021-22), the Primary Deficit during the year 2021-22 increased by ₹ 52.09 crore mainly due to significant decrease in Interest Payment by ₹ 140.80 crore.

Chart 1.5: Trends in Surplus/Deficit relative to GSDP during 2017-18 to 2021-22

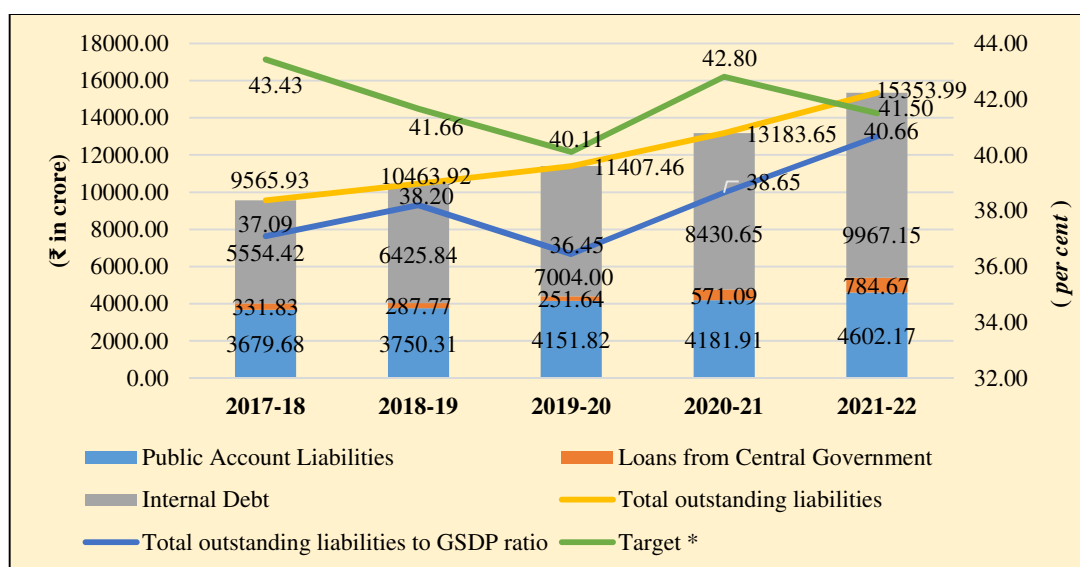


As can be seen from the above chart, the Revenue Surplus-GSDP ratio depicted a fluctuating trend during 2017-22. The ratio increased by 2.22 *per cent* as compared to the previous year. Both Fiscal Deficit-GSDP ratio and Primary Deficit-GSDP ratio depicted a fluctuating trend. However, the ratios decreased in 2021-22 as compared to the previous year, indicating that the expenditure of the State increased at a lower rate as compared to the increase of GSDP of the State.

Fiscal Deficit is usually financed by way of borrowings by the State giving rise to government debt. If the government continues to borrow year after year, it will lead to accumulation of debt. Government debt is mainly composed of Internal Borrowings (Market loans, Ways and Means Advances *etc.*), Loans and Advances from GoI and receipts on Public Account (Small savings, Provident fund, *etc.*).

Chart 1.6 depicts the trends in the components of liabilities.

Chart 1.6: Trends in Fiscal Liabilities and GSDP



*As per XIV/XV FC projections.

The overall fiscal liabilities of the State increased steadily during 2017-18 to 2021-22, from ₹ 9,565.93 crore in 2017-18 to ₹ 15,353.98 crore in 2021-22. Fiscal liabilities increased by 16.46 *per cent* (₹ 2,170.34 crore) in 2021-22 over the previous year which was mainly due to increase in Internal Debt (₹ 1,536.50 crore) and Public Account Liabilities (₹ 420.26 crore). Such a trend puts pressure on the State Government for meeting the burden on repayment of debt and interest thereon.

1.8 Constitution and Implementation of State Finance Commission

Article 243 I of the Constitution of India makes it mandatory for the State Government to constitute a Finance Commission on expiry of every five years for reviewing the financial position of the local bodies, for boosting their financial conditions, distributing net proceeds of the taxes, fees, tolls and duties, and allocating funds from the State Consolidated Fund as part of devolution of fiscal and financial powers and financial resources.

The State Government constituted the Third State Finance Commission (TSFC) in February 2013 after five years from the actual due date of constitution (January 2008) to determine the share of revenue between the State and Local Bodies. The TSFC submitted its report in December 2014 covering the period 2013-18. The State Government accepted the recommendations of the TSFC in December 2015 *i.e.* after two and half years from the actual due date for implementation of recommendations. Though the Fourth State Finance Commission (FSFC) was already due since April 2018, it was constituted only in October 2019 after a delay of 18 months. The recommendations of the FSFC presented in July 2021 is yet to be considered by the State Government.

By 31 March 2020, Fifth and Sixth SFCs should have been constituted. However, the State Government has extended the term of the TSFC till such time the recommendations of the Fourth SFC is implemented.

Due to non-constitution of SFC after the Fourth SFC, subsequent requirement of financial resources for the ULBs to meet the need of growing urban areas and its population has not been assessed by SFC as required under the Constitutional.

1.8.1 Status of implementation of recommendations on fiscal devolution

As per the recommendations of the Third SFC, the State Government is required to transfer 10 *per cent* of the State's Own Tax Revenue to the local bodies including the Autonomous District Councils (ADCs). Out of this allocation, 35.28 *per cent* was to be transferred to *Panchayati Raj* Institutions (PRIs), 22.49 *per cent* to the Urban Local Bodies (ULBs) and the remaining 42.23 *per cent* to the ADCs. The position of funds released under the Third SFC to PRIs and ULBs during the five years period 2017-18 to 2021-22 is shown in the following table:

Table 1.8: Statement showing funds released to ADCs, PRIs and ULBs under SFC

(₹ in crore)

| Year | State's Own Tax Revenue | Amount to be transferred to Local Bodies including ADCs (10 per cent) | Amount to be transferred to PRIs (35.28 per cent) | Amount actually released to PRIs | Amount to be released to ULBs (22.49 per cent) | Amount actually transferred to ULBs | Amount to be released to ADCs (42.23 per cent) | Amount actually transferred to ADCs |
|---------|-------------------------|---|---|----------------------------------|--|-------------------------------------|--|-------------------------------------|
| 2017-18 | 790.94 | 79.09 | 27.90 | 27.05 (3.06) | 17.79 | 18.71 (-5.18) | 33.40 | 32.11 (3.87) |
| 2018-19 | 1046.05 | 104.61 | 36.90 | 33.46 (9.33) | 23.53 | 21.33 (9.33) | 44.17 | 40.05 (9.34) |
| 2019-20 | 1201.12 | 120.11 | 42.38 | 38.74 (8.58) | 27.01 | 24.69 (8.60) | 50.72 | 46.37 (8.58) |
| 2020-21 | 1294.49 | 129.45 | 45.67 | 46.73 (-2.32) | 29.11 | 29.79 (-2.33) | 54.67 | 55.94 (-2.33) |
| 2021-22 | 1648.50 | 164.85 | 58.16 | 46.73 (19.65) | 37.07 | 29.79 (19.65) | 69.62 | 55.94 (19.65) |

Source: Finance Accounts, Government of Manipur and information consolidated from RD & PR Department.

Note: Figures in brackets indicates short release in per cent.

It is evident from the above table that actual release of funds by the State Government to the PRIs during the period 2017-18 to 2021-22 was lower than that recommended by

the Third SFC in four years. Short release of fund to the PRIs ranged from 3.06 to 19.65 *per cent* and this would result in inadequate financial resource of the PRIs. Similarly, there was short release of funds to ULBs ranging from 8.60 to 19.65 *per cent* during the same period. In the case of ADCs, the shortfall in the release of fund ranged from 3.87 to 19.65 *per cent* during the same period. Such shortfall would ultimately impede the development works in the PRIs and ULBs of the State.

1.9 Impact on Revenue and Fiscal Deficit, Post Audit

Certain operations such as Non-payment of interest in Defined Contribution Pension Scheme for Government Employees, Non-adjustment of interest on balances in State Compensatory Afforestation Fund, Short Transfer of Employer's share to Defined Contribution Pension Scheme, Non-transfer of Central share of SDRF to Public Account under MH 8121 *etc.* also impact the Revenue Surplus and Fiscal Deficit figures resulting in inaccurate surplus/deficit figure. **Table 1.9** shows the operation of the State which impacted Revenue Surplus and Fiscal Deficit during the year 2021-22.

Table 1.9: Impact on Revenue Surplus and Fiscal Deficit

(₹ in crore)

| Particulars | Impact on Revenue Surplus | | Impact on Fiscal Deficit | |
|---|---------------------------|----------------|--------------------------|----------------|
| | Overstated (-) | Understated(+) | Overstated (-) | Understated(+) |
| Non-payment of interest in Defined Contribution Pension Scheme for Government Employees | (-) 7.35 | Nil | Nil | (+) 7.35 |
| Non-adjustment of interest on balance in State Compensatory Afforestation Fund | (-) 8.77 | Nil | Nil | (+) 8.77 |
| Non-payment of interest in 8336-Civil Deposits/800 - Other Deposit | (-) 0.09 | Nil | Nil | (+) 0.09 |
| Non-payment of interest in State Disaster Response Fund | (-) 3.68 | Nil | Nil | (+) 3.68 |
| Major works budgeted/booked under Revenue section instead of Capital | Nil | (+) 0.32 | Nil | Nil |
| Minor works budgeted/booked under Capital section instead of Revenue | (-) 2.86 | Nil | Nil | Nil |
| Short Transfer of Employer's share to Defined Contribution Pension Scheme | (-) 79.55 | Nil | Nil | (+) 79.55 |
| Non-contribution of State matching share in State Disaster Response Fund (SDRF) | (-) 3.73 | Nil | Nil | (+) 3.73 |
| Non-transfer of Central share of SDRF to Public Account under MH 8121 | (-) 33.60 | Nil | Nil | (+) 33.60 |

| Particulars | Impact on Revenue Surplus | | Impact on Fiscal Deficit | |
|---|---------------------------|-----------------|--------------------------|-------------------|
| | Overstated (-) | Understated(+) | Overstated (-) | Understated(+) |
| Non-Transfer of the Manipur Building and Other Construction Workers' Welfare Cess | (-) 0.22 | Nil | Nil | (+) 0.22 |
| Non contribution to Consolidated Sinking Fund | (-) 65.92 | Nil | Nil | (+) 65.92 |
| Non contribution of Guarantee Redemption Fund | (-) 2.99 | Nil | Nil | (+) 2.99 |
| Total Impact | (-) 208.76 | (+) 0.32 | Nil | (+) 205.90 |
| Total Net Impact | (-) 208.44 | | (+) 205.90 | |

Source: Finance Accounts

It is evident from the table above that Revenue Surplus was overstated by ₹ 208.44 crore and Fiscal Deficit was understated by ₹ 205.90 crore. If the figures are adopted, the correct figure of the Revenue Surplus would be ₹ 1,240.41 crore¹ and Fiscal Deficit would be ₹ 2,009.08 crore² for 2021-22.

1.10 Conclusion

- The GSDP increased by ₹ 3,651.00 crore (10.70 per cent) from ₹ 34,110.00 crore in 2020-21 to ₹ 37,761.00 crore in 2021-22. During the last five years, there was a steady increase in GSDP from ₹ 25,789.23 crore in 2017-18 to ₹ 37761.00 crore in 2021-22.
- The GSDP growth rate for Manipur (10.70 per cent) was lower than the GDP growth rate (19.51 per cent) in 2021-22. Services Sector was the major contributor of GSDP during the year with 65.86 per cent. Agriculture was the second largest contributor with 21.32 per cent while Industry was the third largest contributor with 8.31 per cent.
- The State's Revenue Receipts increased by 8.54 per cent (₹ 1,108.35 crore) over the previous year mainly due to increase in State's Share of Union Taxes/Duties (₹ 1,737.68 crore) and Own Tax Revenue (₹ 354.01 crore). However, the State could not achieve the projections of Budget Estimates.
- The State's Own Tax Revenue increased by 27.35 per cent over the previous year 2020-21.
- The State's Total Expenditure for the year which was ₹ 15,896.57 crore increased by 6.85 per cent (₹ 1,018.72 crore) over the previous year due to increase in both Revenue Expenditure (₹ 213.68 crore) and Capital Expenditure (₹ 805.04 crore).
- The State's Revenue Surplus which was ₹ 1,448.85 crore for the year increased by 161.44 per cent (₹ 894.67 crore) over the previous year mainly due to increase in

¹ ₹ 1,448.85 – ₹ 208.44 = ₹ 1,240.41

² ₹ 1,803.19 + ₹ 205.90 = ₹ 2,009.08

State's Share of Union Taxes/Duties (₹ 1,737.68 crore) and Own Tax Revenue (₹ 354.01 crore).

- Fiscal Deficit decreased by 4.69 *per cent* (₹ 88.72 crore) as compared to that of the previous year which was 4.78 *per cent* of GSDP and could not achieve the projection of the Manipur FRBM Act during the year.
- By 31 March 2020, the Fifth and Sixth SFCs should have been constituted. However, the State Government has extended the term of the Third SFC till such time the recommendations of the Fourth SFC is implemented.
- Post audit, the Revenue Surplus was overstated by ₹ 208.44 crore and Fiscal Deficit was understated by ₹ 205.90 crore due to non-payment of interest in Defined Contribution Pension Scheme for Government Employees, non-adjustment of interest on balances in State Compensatory Afforestation Fund, short transfer of Employer's share to Defined Contribution Pension Scheme, non-transfer of Central share of State Disaster Response Fund to Public Account etc.

1.11 Recommendations

- *The State Government needs to keep up the trend of Own Tax Revenue collection achieved during 2021-22 by focusing on other potential areas apart from SGST to have a sustained increase in Own Tax Revenue collection.*
- *The State Government needs to keep up the trend of increasing its Capital Expenditure and give more impetus to asset creation for sustained economic growth.*
- *The State Government should constitute Finance Commission as per the Article 243 I of the Constitution.*
- *The State Government needs to keep up the trend of achieving the projections on major fiscal parameters made in the Manipur FRBM Act through prudent financial management and increase their Revenue Surplus.*