



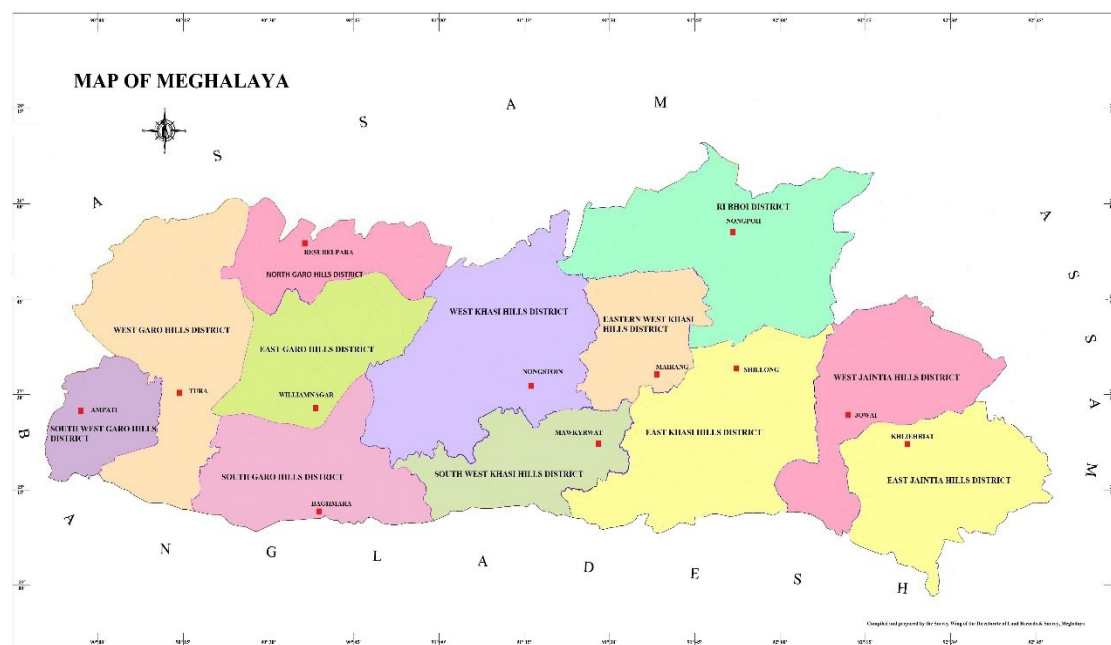
**CHAPTER-I
OVERVIEW**



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.



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 29.67 lakh persons (0.25 per cent of the population of the country) as per Census 2011. The decadal (2001-2011) growth rate of population for the State was 27.94 per cent against the national decadal growth rate of 17.70 per cent. The projected population of the State during 2023 was 33.64 lakh. As per census 2011, State's literacy rate is 74.40 per cent, higher than all India average of 73.00 per cent.

The State has 12 districts¹ and three Autonomous District Councils² under Sixth Schedule of the Constitution of India. Meghalaya is one of the ten North Eastern and Himalayan States (as per XV FC Report). In general, the NEHS receive higher share of Central Assistance for implementation of Centrally Sponsored Schemes (CSS) than the General States. The General and Financial data relating to the State is given in **Appendix 1.1**.

¹ East Khasi Hills, West Khasi Hills, South West Khasi Hills, Eastern West Khasi Hills, East Garo Hills, West Garo Hills, South Garo Hills, North Garo Hills, South West Garo Hills, East Jaintia Hills, West Jaintia Hills and Ri-Bhoi.

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

1.1.1 Gross State Domestic Product of the State

Gross State Domestic Product (GSDP) is the monetary value of all the final goods and services produced within the territory 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.

Gross Value Added (GVA) is also being adopted increasingly to measure economic growth as GVA is considered better indicator of economic growth compared to GDP, as it insulates the impact of taxes and subsidies. GVA is defined as the value of output minus the value of intermediate consumption and is a measure of the contribution to GDP made by an individual producer, industry or sector. At its simplest it gives the rupee value of goods and services produced in the economy after deducting the cost of inputs and raw materials used.

Trends in GSDP compared to GDP are shown in **Table 1.1**; and the sectoral contribution and sectoral growth in GSDP during the period 2018-19 to 2022-23 are depicted in **Chart 1.1** and **Chart 1.2** respectively.

Table 1.1: Trends in GSDP compared to the national GDP at Current Prices

Year	2018-19	2019-20	2020-21	2021-22	2022-23
<i>(₹ in crore)</i>					
INDIA					
GDP at Current Prices	1,88,99,668	2,01,03,593 (3 rd RE)	1,98,29,927 (2 nd RE)	2,34,71,012 (1 st RE)	2,72,40,712 (PE)
GVA	1,71,75,128	1,83,81,117 (3 rd RE)	1,81,88,780 (2 nd RE)	2,14,38,883 (1 st RE)	2,47,42,871 (PE)
Growth rate of GDP over previous year (in per cent)	10.59	6.37	(-)1.36	18.36	16.06
Growth rate of GVA over previous year (in per cent)	10.77	7.02	(-)1.05	17.87	15.41
Per Capita GDP (in ₹)	1,42,424	1,49,915	1,46,301	1,71,498	1,96,983
MEGHALAYA					
GSDP at Current Prices	32,176	34,770	33,776	38,785 (Q)	42,697 (A)
GSVA	30,028	32,444 (3 rd RE)	31,373 (2 nd RE)	36,658 (1 st RE)	40,981 (PE)
Growth rate of GSDP over previous year (in per cent)	9.04	8.06	(-) 2.86	14.83	10.09
Growth rate of GSVA over previous year (in per cent)	9.54	8.05	(-)3.30	16.85	11.79
Per Capita GSDP (in ₹)	92,274	97,615	1,02,259	1,16,366	1,26,924

Source: Data Compilation by Economic Wing, Office of the C&AG, Ministry of Statistics and Programme Implementation, Government of India and Department of Economics and Statistics, Government of Meghalaya.

Q=Quick Estimates, A=Advance Estimates

RE=Revised Estimate, PE=Provisional Estimate

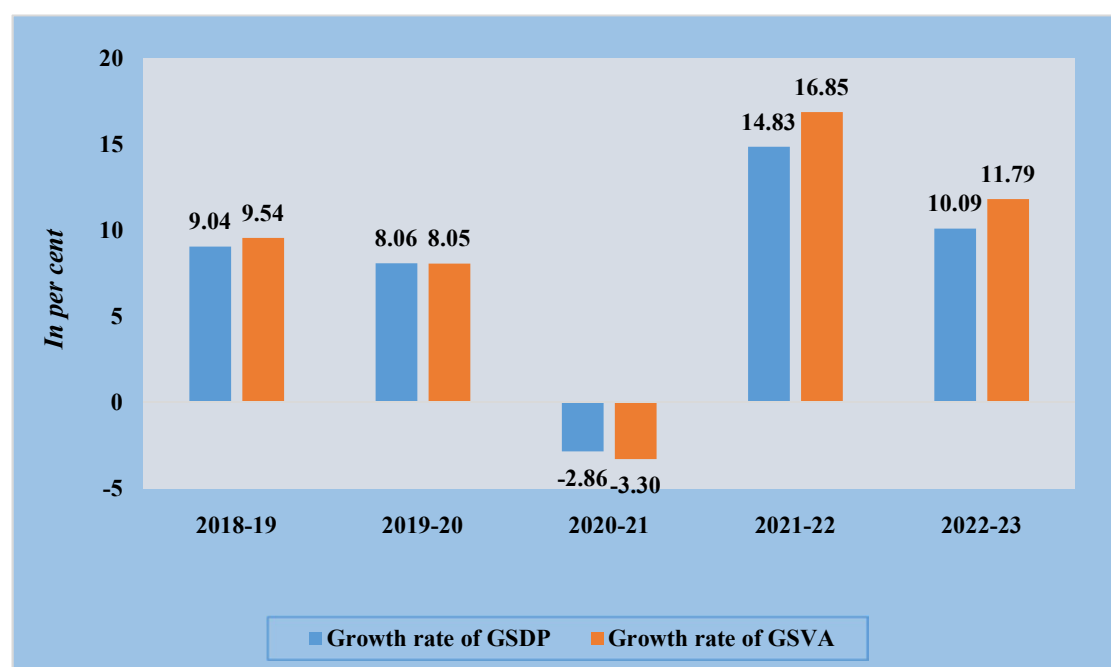
The GSDP at current prices of Meghalaya grew 10.09 *per cent* from ₹ 38,785 crore in 2021-22 to ₹ 42,697 crore in 2022-23. Whereas the GDP of the country at current prices expanded 16.06 *per cent* from ₹ 2,34,71,012 crore in 2021-22 to ₹ 2,72,40,712 crore in 2022-23. In other words, the growth rate of the economy of the state was lower than that of the national economy in terms of GDP/GSDP at current prices. The CAGR of the GSDP of the state during 2018-19 to 2022-23 stood at 7.33 *per cent* while that of the GDP of the country was 9.57 *per cent*.

During 2022-23, the per capita GSDP of the State was ₹ 1,26,924, while that of the country was ₹ 1,96,983. In simpler terms, the per capita GSDP of the state was 35.57 *per cent* lower than the per capita GDP of the country. While Meghalaya registered the 27th highest (5th lowest) per capita GSDP among the 31 states/UTs in India, the state recorded the 10th highest (2nd lowest) per capita GSDP in the group of the 11 NE & H states.

While the GVA of the country expanded 15.41 *per cent* from ₹ 2,14,38,883 crore in 2021-22 to ₹ 2,47,42,871 crore in 2022-23, the GSVA of the state grew 11.79 *per cent* from ₹ 36,658 crore in 2021-22 to ₹ 40,981 crore in 2022-23. Put differently, the state economy grew 23.49 *per cent* slower than the national economy in terms of Gross Value Addition. The CAGR of the GSVA of the State during 2018-19 to 2022-23 registered 8.08 *per cent* while that of the GVA of the country was 9.56 *per cent*.

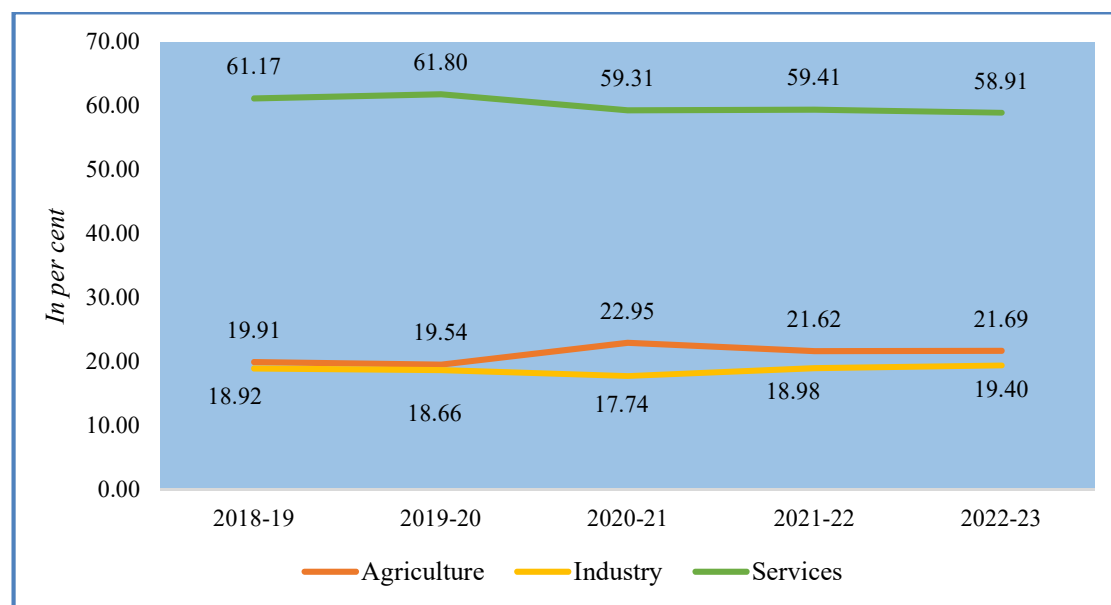
The trends of GSDP and GSVA for the period from 2018-19 to 2022-23 is indicated in **Chart 1.1** below:

Chart 1.1: Growth rate of GSDP vs GSVA



Source: Department of Economic & Statistics, Government of Meghalaya and Data compiled by Economic Division, O/o the C&AG of India.

Chart 1.2: Sectoral Contribution to GSDP during 2018-19 to 2022-23



Source: Data Compiled by Economic Wing, Office of the C&AG of India.

Chart 1.2 indicates that Services Sector is the main contributor to the State GSDP, with a contribution of 58.91 *per cent* during 2022-23 followed by Industry Sector (21.69 *per cent*) and Agriculture Sector (19.40 *per cent*). During 2022-23, the share of Services Sector in the State economy reduced from 59.41 *per cent* in 2021-22 to 58.91 *per cent*, that of Industry Sector expanded marginally from 21.62 *per cent* in 2021-22 to 21.69 *per cent* in 2022-23 and that of Agriculture Sector increased from 18.98 *per cent* in 2021-22 to 19.40 *per cent*.

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 (CAG) of India 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.

The Principal Accountant General (Accounts & Entitlements) prepares the Finance Accounts and Appropriation Accounts of the State annually, from the vouchers, challans and initial & 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 2022-23 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 Meghalaya Fiscal Responsibility and Budget Management Act, 2006 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 Overview of Government Account Structure and Budgetary Processes

Government Accounts comprise of Consolidated Fund, Contingency Fund and Public Accounts as defined below:

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 **functional major head concerned** 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 **repayable** 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. **Chart 1.3** present the structure of Government Accounts.

Chart 1.3: Structure of Government Accounts

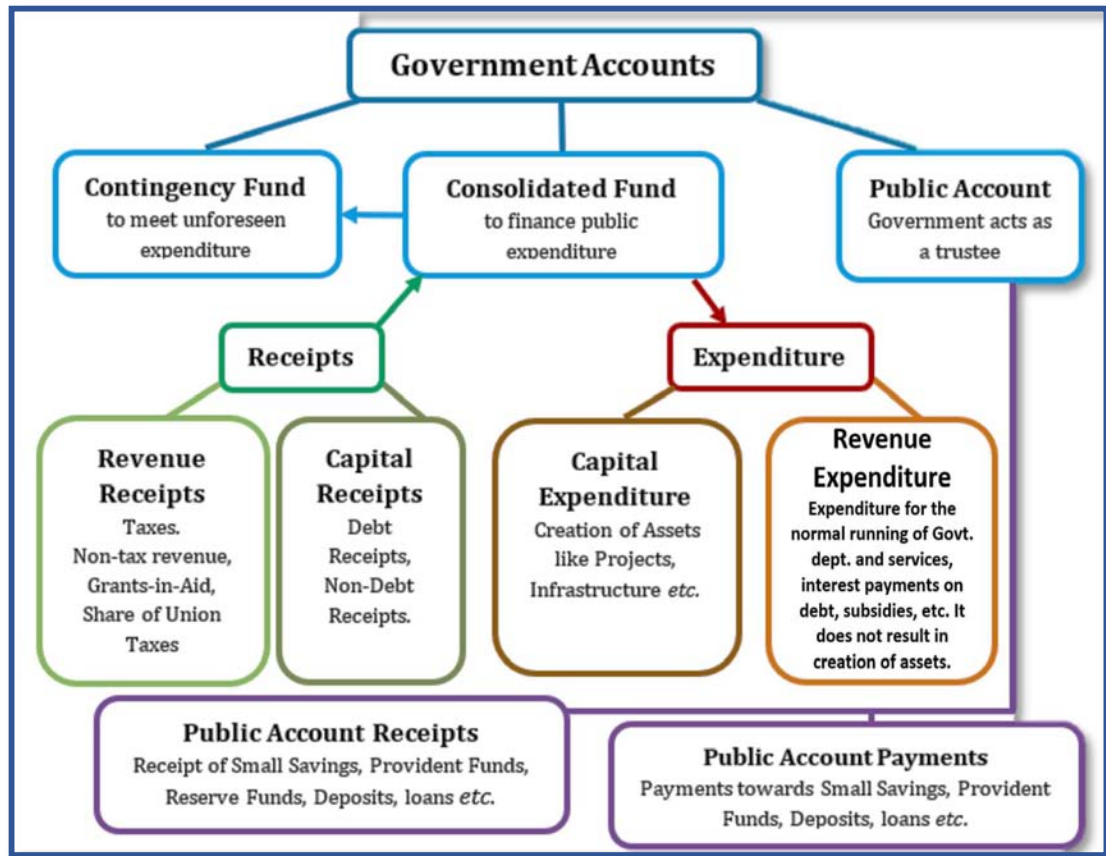


Chart 1.4: Share of Receipts in Government Accounts during the year

(In per cent)

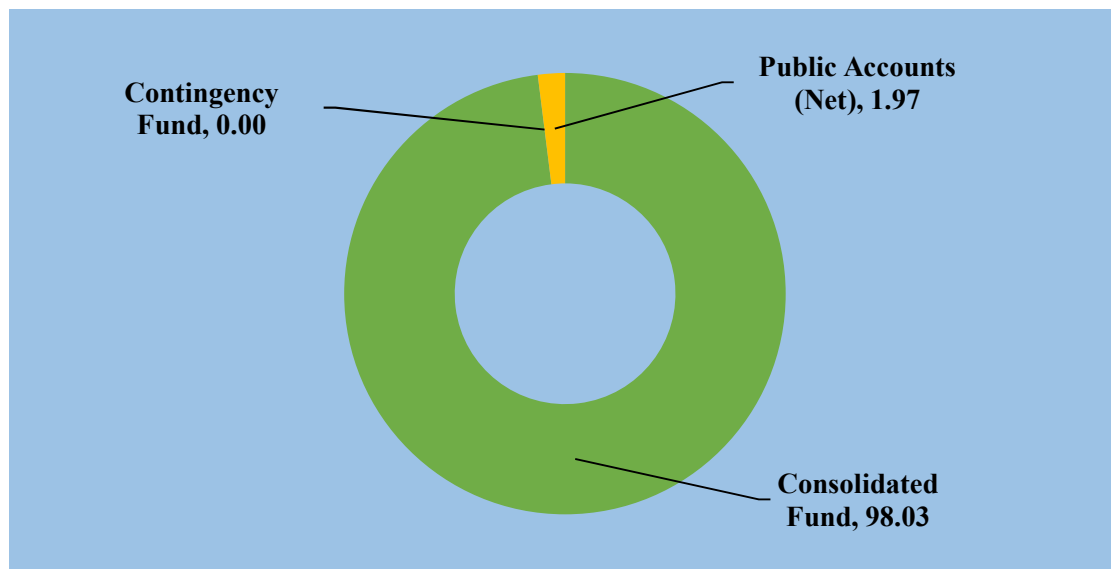


Chart 1.4 depicts the composition of receipts into the Government Accounts during 2022-23. The Consolidated Fund of the State received 98.03 *per cent* of the public funds during the year while the net Public Accounts receipts constituted 1.97 *per cent*.

(i) Budget Document

The Constitution of India under article 202 prescribes the Governor of the State to cause to lay before the Legislature of the State a statement of the estimated receipts and expenditure of the state, referred to as the Annual Financial Statement, in respect of every financial year. This 'Annual Financial Statement' constitutes the main budget document and is commonly referred to as the Annual Financial Statement. Further, the budget is required to 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.

Revenue Surplus/Deficits means the difference between revenue expenditure and total revenue receipts.

Fiscal Deficit means the excess of total disbursements, from the Consolidated Fund of the state, excluding repayment of debt, over total receipts into the Fund (excluding the debt receipts), during a financial year. In other words, when total expenditure (excluding debts repayments) is more than total Receipts (excluding borrowing), the gap is referred to as Fiscal Deficit. The Government borrows to bridge this gap.

Primary Deficit is defined as Fiscal Deficit less interest payments.

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)

Functional classification specifies department, function, program, scheme and object details of expenditure, while economic classification organises payments by revenue, capital, debt, *etc.* Economic classification is determined by the first digit in 4-digit Major Heads. For example, 0 and 1 signify Revenue Receipts, while 2 and 3 denote Revenue Expenditure, and so on. Economic classification is further established through predefined distribution of certain object heads. For example, the “salary” object head is categorised as Revenue Expenditure, while the “construction” object head is classified as Capital Expenditure. The object head constitutes the primary unit for appropriation within budget documents.

(ii) Public Debt and Public Liability

In this Report ‘Public Debt’ has been taken to comprise market borrowings, institutional loans, special securities issued to National Small Savings Fund (NSSF), loan given by Central Government *etc.* For this purpose, the major heads 6003 and 6004 - Public Debt have been taken into consideration.

Further, the transactions relating to ‘Small Savings, Provident Fund, *etc.*’, ‘Reserve Funds’ and ‘Deposit and Advances’ under Public Account are such that the Government incurs a liability to repay the moneys received or has a claim to recover the amounts paid. The transactions relating to ‘Remittances’ and ‘Suspense’ under Public Account, includes merely adjusting heads such as transactions as remittances of cash between treasuries and currency chests and transfer between different accounting circles.

In this Report, ‘Public Liability’ has been taken to include the transactions under major heads 8001 to 8554 relating to ‘Small Savings, Provident Fund, *etc.*’, ‘Reserve Funds’ and ‘Deposit and Advances’ along with the transactions under major heads 6003 and 6004.

(iii) 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 III** of this Report.

1.3.1 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 1.2** presents the details of actual financial results *vis-à-vis* BEs for the year 2022-23 *vis-à-vis* actuals for 2021-22.

Table 1.2: Snapshot of Finances of the State

(₹ in crore)

Sl. No.	Components	2021-22	2022-23		Percentage of Actuals to	
		Actuals	BEs	Actuals	BEs	GSDP
1	Tax Revenue	8,881.01	8,839.10	9,936.81	112.42	23.27
	<i>Own Tax Revenue</i>	2,300.38	2,575.40	2,650.67	102.92	6.21
	<i>Share of Union taxes/duties</i>	6,580.63	6,263.70	7,286.14	116.32	17.06
2	Non-Tax Revenue	524.58	730.72	456.61	62.49	1.07
3	Grants-in-Aid and Contributions	4,868.55	6,465.53	4,426.45	68.46	10.37
4	Revenue Receipts (1+2+3)	14,274.14	16,035.35	14,819.87	92.42	34.71
5	Recovery of Loans and Advances	24.41	33.19	24.55	73.97	0.06
6	Other Receipts	0	0	0	0.00	0.00
7	Borrowings and other liabilities	4,019.95	2,631.85	6,220.68	236.36	14.57
8	Capital Receipts (5+6+7)	4,044.36	2,665.04	6,245.23	234.34	14.63
9	Total Receipts (4+8)	18,318.50	18,700.39	21,065.10	112.65	49.34
10	Revenue Expenditure	13,620.22	15,375.53	14,863.77	96.67	34.81
11	<i>of which, Interest payments</i>	963.27	1,110.20	1,028.52	92.64	2.41
12	Capital Expenditure	2,837.12	2,541.71	2,776.80	109.25	6.50
13	<i>Capital Outlay</i>	2,751.79	2,462.63	2,742.28	111.36	6.42
14	<i>Loans and advances (disbursal)</i>	85.33	79.08	34.52	43.65	0.08
15	Total Expenditure excluding repayment of debts (10+12)	16,457.34	17,917.24	17,640.57	98.46	41.32
16	Revenue Surplus (+)/ Deficit (-) (4-10)	(+)653.92	(+)659.82	(-)43.90	(-)6.65	(-) 0.10
17	Fiscal Deficit (-) /Surplus (+) {(4+5+6)-15}	(-) 2,158.79	(-)1,848.70	(-)2,796.15	(-)151.25	(-) 6.55
18	Primary Deficit (-) / Surplus (+) (17-11)	(-) 1,195.52	(-)738.50	(-)1,767.63	(-)239.35	(-) 4.14

Source: Finance Accounts of 2018-19 to 2022-23.

Table 1.2 indicates that the Revenue Receipt of the state expanded by 3.82 *per cent* (₹ 545.73 crore) from ₹ 14,274.14 crore in 2021-22 to ₹ 14,819.87 crore in 2022-23. The tax revenue increased by 11.89 *per cent* over the previous year. On other hand, the non-tax revenue and Grant-in-Aid decreased by 12.96 *per cent* and 9.08 *per cent* respectively. The Revenue Receipt was 92.42 *per cent* of the BE (₹ 16, 035.35 crore).

The borrowings and other liabilities of the State during 2022-23 (₹ 6,220.68 crore) were 136.36 *per cent* over the BE (₹ 2,631.85 crore). This is 54.75 *per cent* higher than the previous year. While the Revenue Receipts and Recovery of Loans underperformed against the BEs, the Total Receipts (₹ 21,065.10 crore) crossed the BE (₹ 18,700.39 crore) mainly driven by the borrowing substantially exceeding the BE. The Total Receipts was 14.99 *per cent* (₹ 2,746.60 crore) higher than the previous year (₹ 18,318.50 crore).

The Revenue Expenditure (RE) of the state during 2022-23 (₹ 14,863.77 crore) was 96.67 *per cent* of the BE (₹ 15,375.53 crore). 6.92 *per cent* (₹ 1,028.52 crore) constituted interest payments for public debts. The RE during 2022-23 grew 9.13 *per cent* over the previous year.

The Capital Expenditure in 2022-23 (₹ 2,776.80 crore) was higher by 2.13 *per cent* over the previous year. However, as percentage of GSDP, capital outlay was a mere 6.50 *per cent*. Similarly, capital outlay of ₹ 2,742.28 crore exceeded BEs by 11.36 *per cent* (₹ 279.65 crore) during the year.

The State registered Fiscal Deficit of ₹ 2,796.15 crore, 29.52 *per cent* higher than the previous year (₹ 2,158.79 crore). Further, the Primary Deficit of the state widened 47.85 *per cent* from ₹ 1,195.52 crore in 2021-22 to ₹ 1,767.63 crore in 2022-23.

1.3.2 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. **Table 1.3** presents the summarised position of assets and liabilities.

Table 1.3: Summarised position of Assets and Liabilities

		Liabilities			Assets				
		2021-22	2022-23	Increase (<i>per cent</i>)			2021-22	2022-23	Increase (<i>per cent</i>)
Consolidated Fund									
A	Internal Debt	11,244.83	12,634.54	12.36	A	Gross Capital Outlay	19,462.32	22,204.60	14.09
	Market loans	9,917.50	11,285.50	13.79		Investment in shares of Companies, etc.#	540.81	1,118.92	106.90
	Loans from other institutions	1,327.33	1,349.04	1.64		Other Capital Outlay	18,921.52	21,085.68	11.44

Liabilities					Assets				
		2021-22	2022-23	Increase (per cent)		2021-22	2022-23	Increase (per cent)	
B	Loans and Advances from GoI*	921.15*	2,002.58*	117.40	B	Loans and Advances	981.80	991.77	1.02
Contingency Fund									
Contingency Fund		505	505.00						
Public Account									
A	Small Savings, Provident Funds, etc.	2,272.72	2,399.00	5.56	A	Advances	1.81	1.81	-
B	Deposits	1,090.37	1,459.03	33.81	B	Remittance			-
C	Reserve Funds	899.12	989.98	10.11	C	Suspense and Miscellaneous	139.20	144.81	4.03
D	Remittances	83.40	85.45	2.42	Cash balance (incl. investment in Earmarked Fund)		651.53	908.75	39.48
Surplus in Government Account		4,220.07	4,176.16						
Total		21,236.66	24,251.74	14.20	Total	21,236.66	24,251.74	14.20	

Source: Finance Accounts of 2018-19 to 2022-23.

This excludes investment of ₹ 2,116.26 crore to Meghalaya Energy Corporation Limited (MeECL) made from Revenue Account and ₹ 5.00 crore adjustment for previous year.

* This includes ₹ 253.16 crore Back-to-Back Loans in lieu of GST Compensation Shortfall.

Liabilities on the Consolidated Fund of State include market loans, loans raised from financial institutions and loans and advances received from the Government of India (GoI). During 2022-23, Public Debt liabilities stood at ₹ 14,637.12 crore. This comprises market loans of ₹ 11,285.50 crore, loans from financial institutions of ₹ 1,349.04 crore and ₹ 2,002.58 crore loans and advances from the GoI.

The increase in Public Debt in 2022-23 over 2021-22 (₹ 12,165.98 crore) was 20.31 per cent. This was primarily due to increase in loans and advances from the GoI³ (117.40 per cent) and market loans⁴ (13.79 per cent).

Liabilities on the Consolidated Fund of the State increased by 20.74 per cent in 2022-23 over 2021-22 mainly due to increase of market loans⁵ by 13.79 per cent and Loans and Advances from the GoI⁶ by 161.90 per cent (excluding Back -to-Back Loan

³ 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.

⁴ 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.

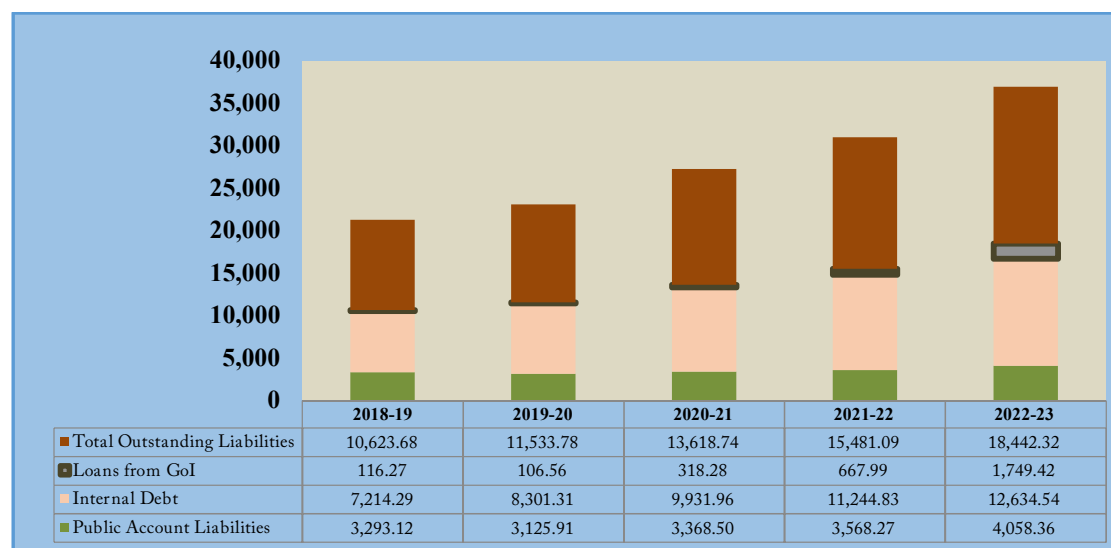
⁵ Market loans include: Loans from State Bank of India, Life Insurance Corporation, General Insurance Corporation, National Bank for Agriculture and Rural Development, Compensation and other bonds, Ways and Means Advances, Special Securities issued to National Social Securities Fund, Loans from NCDC and Loans from other Institutions.

⁶ 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.

to State in lieu of GST Compensation Shortfall of ₹ 253.16 crore) in 2022-23 over 2021-22.

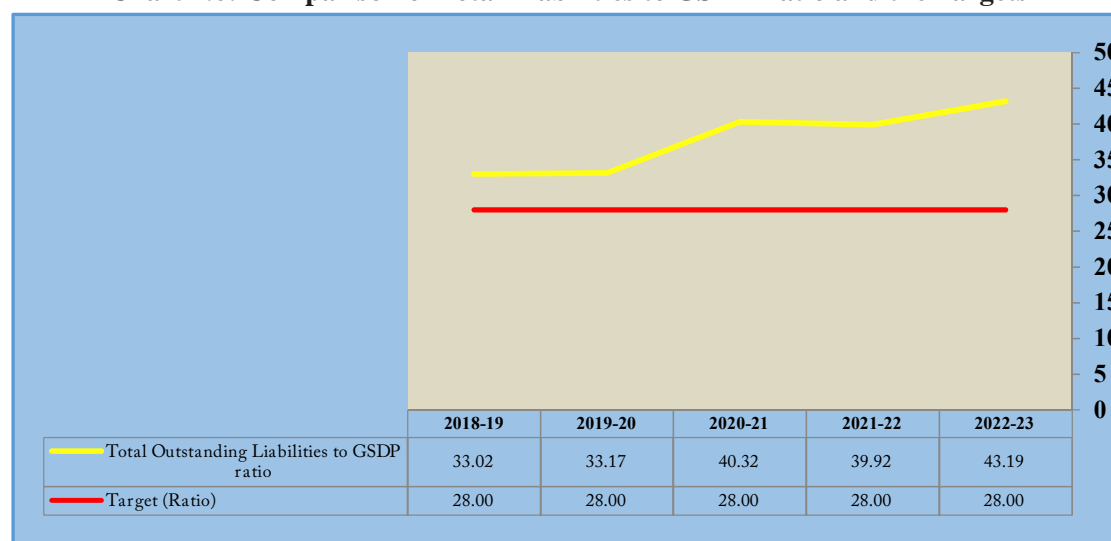
Chart 1.5 and **Chart 1.6** depict the trends in fiscal liabilities and total liabilities to GSDP ratio during the five-year period 2018-23.

Chart 1.5: Trends in Liabilities



Source: Finance Accounts 2022-23.

Chart 1.6: Comparison of Total Liabilities to GSDP Ratio and the Targets



Source: Finance Accounts 2022-23 and MFRBM Act 2006.

Outstanding liabilities of the State increased from ₹ 10,623.68 crore as on 31 March 2019 to ₹ 18,442.32⁷ crore as on 31 March 2023. Compared to previous year, the outstanding liabilities at the end of 2022-23 increased by 19.13 per cent (₹ 2,961.23 crore).

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.

The State failed to achieve the Total Outstanding Liabilities to GSDP ratio target of 28 per cent set by the Meghalaya Fiscal Responsibility and Budget Management (MFRBM) Act, 2006 for the period 2018-19 to 2022-23.

Meghalaya is the fourth highest in the terms of Outstanding liabilities-GSDP ratio among the States/UTs in India. In comparison to 11 North Eastern and Himalayan States, Meghalaya stood at the third position. This indicates mounting liabilities of the State. The state may take proactive measures to address this concern and avoid falling into a potential debt trap.

1.4 Fiscal Balance: Achievement of deficit and total debt targets

The objective of prudent budget management is to achieve a healthy fiscal balance which prevents the economy from getting into a debt trap while promoting economic growth. 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 2022-23. 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.

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 2018-19 to 2022-23 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 1.4**.

Table 1.4: Compliance with provisions of MFRBM Act 2006

Fiscal Parameters		Achievement <i>vis-à-vis</i> targets set in the MFRBM				
		2018-19	2019-20	2020-21	2021-22	2022-23
Revenue Deficit (-) / Surplus (+) (₹ in crore)	Target	Maintain Revenue Surplus				
	Actual	-537.32	-151.60	-815.38	653.92	-43.90
	Status	X	X	X	✓	X
Fiscal Deficit (as percentage of GSDP)	Target	3.25 [^]	4.35 [^]	5.25 [^]	4.00-4.50	4.00
	Actual	2,026.08 (6.30)	1,103.77 (3.17)	2,603.56 (7.71)	2,158.79 (5.57)	2,796.15 (6.55)
	Status	X	✓	X	X	X
Ratio of total outstanding liabilities to GSDP (in per cent)	Target	28.00	28.00	28.00	28.00	28.00
	Actual	33.02	33.17	40.32*	39.92 ⁺	43.19 ⁺
	Status	X	X	X	X	X

* Excludes Back-to-Back loan of ₹ 112.00 crore.

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

[^] Increased by 0.25 per cent as the total interest paid preceding year is less than/equal to 10 per cent of Revenue Receipts. Refer to MFRBM (Amendment) Act 2015.

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

The State Government again slipped into Revenue Deficit during the current year after achieving Revenue Surplus of ₹ 653.92 crore during 2021-22 after three years *i.e.*, since 2018-19. Moreover, the State Government continue to fall short of meeting the target set for Fiscal Deficit-GSDP and Liability-GSDP ratios set in the MFRBM Act, 2006. Fiscal Deficit increased from 5.71 *per cent* in 2021-22 to 6.55 *per cent* of GSDP in 2022-23, which is above the target of 4.00 *per cent* set under MFRBM (Amendment) Act, 2022. Further, the State has failed to achieve the target for total outstanding liability-GSDP ratio prescribed by MFRBM Act since 2018-19. The ratio has not only remained above the prescribed target but also continued to increase over the five-year period.

Table 1.5 Tracks the performance of the list key fiscal parameters against the targets set by the Fifteenth Finance Commission (15th FC) as well as the Budget for 2022-23.

Table 1.5: Targets vis-à-vis achievements in respect of major fiscal aggregates for the year 2022-23

Fiscal Variables	Targets as prescribed by 15th FC	Targets in the Budget	Actuals*	Variation of actuals over [#]	
				Targets of 15th FC	Targets in Budget
Revenue Deficit (-)/ Surplus (+)/GSDP (<i>per cent</i>)	0.80	1.61	(-)0.10	(-)0.90	(-)1.71
Fiscal Deficit (-)/Surplus (+)/GSDP (<i>per cent</i>)	(-)3.50	(-)4.51	(-)6.55	(-)3.05	(-)2.04
Total outstanding liabilities/GSDP (<i>per cent</i>)	40.30	40.23	43.19 [§]	(-)2.89	(-)2.96

Source: Recommendations of 15th FC, Annual Financial Statement and Finance Accounts.

* Calculated on the basis of GSDP figures of ₹ 42,697 (A) crore provide by O/o the Directorate of Economics and Statistics, GoM.

§ Excludes Back-to-Back loan of ₹ 253.16 crore (₹ 112.00 crore + ₹ 141.16 crore) received from GoI in lieu of GST compensation shortfall during 2020-22.

Negative indicates that the target was not achieved while Positive Sign indicates that the target was achieved.

During 2022-23, targets recommended by the 15th FC as well as targets fixed by the Budget 2022-23 for Revenue Surplus/Deficit as *per cent of GSDP*, Fiscal Deficit as *per cent of GSDP* and Total Outstanding Liabilities as *per cent of GSDP* were not achieved.

Chart 1.7 depicts the trends in surplus/deficit parameters during last five years.

Chart 1.7: Trends in deficit parameters

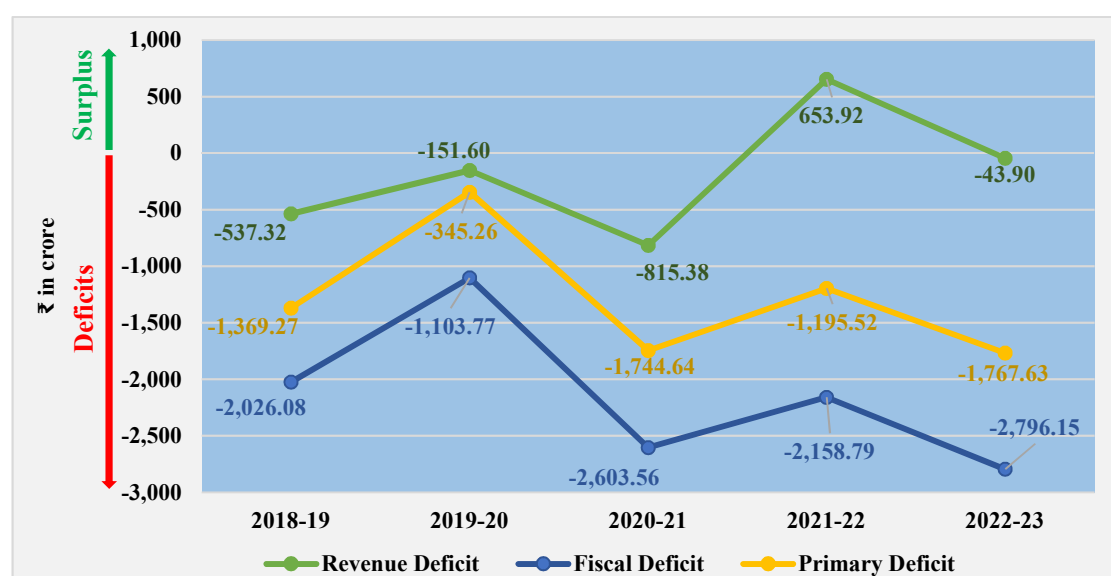


Chart 1.7 shows that Revenue, Fiscal and Primary deficits showed a fluctuating trend. While the Fiscal and Primary balances were in deficits during the period, the Revenue balance was in Surplus during 2021-22 before relapsing into deficit in 2022-23.

Overall, the State failed to achieve the projections set for key fiscal performance parameters.

1.5 Fiscal Policy Statements (FPSs)

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

Table 1.6 indicates the variation between the projections made for 2022-23 in MTFPS presented to the State Legislature along with the Annual Budget and Actuals for the year 2022-23.

Table 1.6: Actuals vis-à-vis projection in FPSs for 2022-23

(₹ in crore)				
Sl. No.	Fiscal Variables	Projection as per MTFPS	Actuals	Variation in per cent
1	Tax Revenue (i + ii)	8,839.10	9,936.81	12.42
	(i) Own Tax Revenue	2,575.40	2,650.67	2.92
	(ii) Share of Central Taxes	6,263.70	7,286.14	16.32
2	Non-Tax Revenue	730.72	456.61	-37.51
3	GIA from GoI	6,465.53	4,426.45	-31.54
4	Revenue Receipts (1+2+3)	16,035.35	14,819.87	-7.58
5	Revenue Expenditure	15,375.53	14,863.77	-3.33
6	Revenue Deficit (-) / Surplus (+) (4-5)	659.82	-43.90	-106.65

Sl. No.	Fiscal Variables	Projection as per MTFPS	Actuals	Variation in per cent
7	Fiscal Deficit (-)/ Surplus (+)	-1,848.70	-2,796.15	51.25
8	Debt-GSDP ratio (<i>per cent</i>)	40.24	43.19	2.95
9	GSDP growth rate at current prices (<i>per cent</i>)	9.38	10.09	0.71
10	Fiscal Deficit as a percentage of GSDP	4.51	6.55	(-) 2.04

Source: Finance Accounts 2022-23 and State Budget 2022-23.

Table 1.6 depicts that the Revenue Deficit and Fiscal Deficit deviated significantly from projections made in FPS. During 2020-21, a significant deviation was noticed in Revenue and Fiscal Deficit. While the deviation of Revenue Deficit improved in 2021-22 (48.73 *per cent*), it deteriorated again in 2022-23 (106.65 *per cent*). Further, Debt-GSDP ratio breached the projection of 40.24 *per cent* set by MTFPS.

1.6 Deficits and total outstanding Liabilities post examination by Audit

To enhance the portrayal of State Finances, there is a tendency to categorise Revenue Expenditure as Capital Expenditure and engage in off-budget fiscal operations.

1.6.1 Deficits post examination by Audit

The MFRBM Act, 2006 requires the State Government to ensure compliance to the targets fixed for the fiscal indicators such as deficits, ceiling on debt and on guarantees, *etc.* The revenue deficit and the fiscal deficit as determined for the State are impacted due to various circumstances such as misclassification of revenue expenditure as capital expenditure and off-budget fiscal operations. Besides, deferment of clear-cut liabilities, not depositing cess/royalty to Consolidated Fund, short contribution to New Pension Scheme, Sinking Fund and guarantee Redemption Fund, *etc.* also impacts the revenue and fiscal deficit figures. In order to arrive at actual deficit figures, the effect of misclassification of revenue expenditure/capital outlay and/or any such misclassification needs to be included and the impact of such irregularities needs to be reversed. Analysis of deficits after examination in audit are given in **Table 1.7**.

Table 1.7: Revenue and Fiscal Deficit, post examination by Audit

Item	Impact on Revenue Deficit		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: ₹ 0.15 crore; SCAF: ₹ 5.47 crore; and SDRF: ₹ 2.04 crore	-	7.66	-	7.66
Misclassification between revenue and capital	-	0.70	-	-
Total (Net) Impact	8.36 (Understatement)		7.66 (Understatement)	

Source: Notes to Accounts of Finance Accounts, 2022-23.

Table 1.7 Highlights that the revenue deficit (₹ 43.90 crore) and fiscal deficit (₹ 2,796.15 crore) of the State were understated by ₹ 8.36 crore and ₹ 7.66 crore

respectively (as referred in **Paragraph 1.4**). The corrected revenue deficit and fiscal deficit would be ₹ 52.26 crore and ₹ 2,803.81 crore respectively.

1.6.2 Total Outstanding Debt post examination by Audit

The MFRBM Act, 2006 defined total liabilities as the liabilities under the Consolidated Fund, the Public Accounts of the State under Article 266 of the Constitution of India and also includes borrowings by the Public Sector Undertakings and Special Purpose Vehicles and other equivalent instruments including guarantees where principal and/or interest are to be serviced out of the State budgets. The position of outstanding liabilities of the state is summarised in **Table 1.8**.

Table 1.8: Components of outstanding debt/liabilities as on 31 March 2023

Borrowings and other liabilities as per Finance Accounts	Amount (₹ in crore)
Internal Debt (A)	12,634.54
Market Loans bearing interest	11,285.50
Market Loans not bearing interest	0.00
Compensation and other Bonds	112.50
Loans from Financial Institutions, etc.	814.50
Special Securities issued to the National Small Savings Fund of the Central Government	422.04
Loans and Advances from Central Government (B)	2,002.58
Non-plan Loans	0.59
Loans for State Plan Schemes	62.31
Loans for Centrally Sponsored Plan Schemes	2.28
Loans for Special Schemes	0.35
Others*	1,937.05
Liabilities upon Public Accounts (C)	4,058.36
Small Savings, Provident Funds, etc.	2,399.00
Deposits	1,459.04
Reserve Funds	200.32
Total (A+B+C)	18,695.48

Source: Finance Accounts.

* Includes back-to-back loans of ₹ 253.16 crore (₹ 112.00 crore in 2020-21 and ₹ 141.16 crore in 2021-22) from GoI in lieu of GST Compensation shortfall.

1.7 Conclusion

Following 2.86 per cent contraction in Gross State Domestic Product (GSDP) during the fiscal year 2020-21, the State demonstrated a notable recovery, achieving an impressive growth of 14.83 per cent in 2021-22. Yet, the GSDP growth for the present year, 2022-23, has declined to 10.09 per cent. Moreover, Meghalaya's GSDP growth in 2021-22 and 2022-23 lagged behind the national GDP growth rates of 18.36 per cent and 16.06 per cent, respectively. Furthermore, Meghalaya's per capita GSDP was lower than the per capita GDP of the country from 2018-19 to 2022-23. This highlights the urgent need for strategic economic initiatives in Meghalaya, including diversification, infrastructure investment, tourism promotion, and prioritising education and skill development.

Revenue receipts and Revenue expenditure rose by 3.82 *per cent* and 9.13 *per cent*, respectively, from the previous year. However, they fell short of budget estimates by 7.58 *per cent* and 3.33 *per cent*. Decrease in Grants-in-Aid & contributions, and lower non-tax revenue collection shifted the budget from revenue surplus of ₹ 653.92 crore in 2021-22 to revenue deficit of ₹ 43.90 crore in 2022-23.

The budget projected a surplus of ₹ 659.82 crore, signifying higher expected revenue. However, actual non-tax revenue fell short by 37.51 *per cent*, and Grants-in-Aid were 31.54 *per cent* below the budget estimates. Tax Revenue collection exceeded the budget estimates by 12.42 *per cent*, resulting in an overall 7.58 *per cent* shortfall in revenue receipts.

In the capital budget, receipts amounted to ₹ 6,245.23 crore (including WMA & SDF of ₹ 3,164.09 crore), surpassing the Budget Estimates by ₹ 3,580.19 crore - 134.34 *per cent* increase. Capital outlay reached ₹ 2,742.28 crore, exceeding the Budget Estimates by ₹ 2,462.63 crore.

Regarding fiscal parameters in 2022-23, the State fell short of maintaining revenue surplus as mandated by the MFRBM Act. The Fiscal Deficit as a percentage of GSDP reached 6.55 *per cent*, and the outstanding-GSDP ratio was 43.19 *per cent*, missing the FRBM Act targets of 4.00 *per cent* and 28.00 *per cent*, respectively. Over the past five years, the State failed to meet the targets for Revenue Balance and Fiscal Balance in four years, while the Outstanding liability-GSDP ratio consistently exceeded the 28 *per cent* limit.

1.8 Recommendations

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