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*CHAPTER I*

*OVERVIEW OF THE STATE*

*FINANCES*

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## Chapter I: Overview of the State Finances

### 1.1 Profile of the State

Nagaland is situated in the North-Eastern Region of India, bordering three States *viz.*, Assam in the West, Arunachal Pradesh and part of Assam in the North and Manipur in the South. It has an international border with Myanmar in the East (215 km). Nagaland has a geographical area of 16,579 sq. kms. *i.e.*, about 0.50 *per cent* of the country's total geographical area (32,87,469 sq. kms). The population of the State in 2024 is 0.23 crore which is 0.16 *per cent* of the population of the Country (140.07 crore). Nagaland has a lower density of population (135.89 per square km), population below poverty line (18.88 *per cent*), infant mortality rate (04 per 1,000 live births) and decadal population growth (2014 to 2024) (10.28 *per cent*) as compared to the All-India average figures of 426.09 per square km, 21.92 *per cent*, 28 per 1000 live births and 11.26 *per cent* respectively. It has a higher literacy rate (79.60 *per cent*) as compared to the All-India Average figure of 73.00 *per cent*.

General and financial data relating to the State are shown in **Appendix 1.1**.

#### 1.1.1 Gross State Domestic Product of the State

**Gross State Domestic Product (GSDP):** GSDP is the value of all the goods and services produced within the boundaries of the State during a year.

**Gross State Value Added (GSVA):** GSVA is the value of output produced without including net on taxes and products against subsidies on products.

Growth of GSDP and GSVA is an important indicator for measuring the economic growth of a State.

Gross Value Added (GVA) is being used for economic analysis by GoI and international organization like IMF and World Bank as GVA is considered a better indicator of economic growth compared to GDP, as it ignores the impact of taxes and subsidies. GDP on the other hand is computed as the sum total of the various expenditure incurred in the economy including private consumption spending, government consumption spending and gross fixed capital formation or investment spending, reflecting essentially on the demand conditions in the economy. Both measures have difference in treatment of net taxes as a result of which the inclusion of taxes in GDP may differ from the real output situation.

The GSDP is classified under three broad Sectors *viz.*, Primary, Secondary and Tertiary. It is compiled economic activity-wise as per the methodology prescribed by the Central Statistics Office (CSO), Government of India (GoI) and furnished to the Ministry of Statistics and Programme Implementation (MoSPI). GSDP is the sum total of value added by different economic sectors (Agriculture, Industry and Services), within the boundaries of the State calculated without duplication, during a year. It is one of the measures of economic growth for a State economy.

The growth rate for the period from 2019-20 to 2023-24 compared with India's GDP is presented in **Table 1.1**.

**Table 1.1: Trends in GSDP compared to the GDP (at current prices)**

(₹ in crore)					
Year	2019-20	2020-21	2021-22	2022-23	2023-24
GDP (2011-12 Series)	2,01,03,593	1,98,54,096	2,35,97,399	2,69,49,646 (1 <sup>st</sup> RE)	2,95,35,667 (PE)
GVA	1,83,81,117	1,82,10,997	2,16,35,584	2,46,59,041	2,67,62,147
Growth rate of GDP over previous year (in per cent)	6.37	-1.24	18.85	14.21	9.60
Growth rate of GVA over the previous year (in per cent)	7.02	-0.93	18.81	13.97	8.53
Per Capita GDP (in ₹)	1,49,915	1,46,480	1,72,422	1,94,879	2,11,725
GSDP (2011-12 Series)	29,716	29,832	32,265	37,150	41,887 (AE)
GSVA	28,623	28,646	30,956	35,734	40,153 (AE)
Growth rate of GSDP over previous year (in per cent)	12.02	0.39	8.16	15.14	12.75
Growth rate of GSVA over previous year (in per cent)	10.40	0.08	8.07	15.43	12.37
Per capita GSDP (in ₹)	1,37,510	1,36,093	1,45,799	1,66,369	1,85,916

Sources: GDP- Central Statistical Office (CSO), MoSPI, GSDP and GSVA -Directorate of Economics and Statistics, Government of Nagaland

RE: Revised Estimates; PE: Provisional Estimates; AE: Advance Estimates

It can be seen from the **Table 1.1** above that GSDP (at current prices) in 2023-24 was ₹41,886.96 crore and the GDP (at current prices) during 2023-24 was ₹2,95,35,667 crore. Further, per capita GSDP of the State for the year 2023-24 was ₹1,85,916 which is lower than that of the country which is ₹2,11,725. Moreover, the Compound Annual Growth Rate (CAGR) of per capita GSDP (7.83 per cent) during the period 2019-20 to 2023-24 was less than the CAGR of per capita GDP (9.01 per cent) during the same period.

The GSDP increased by ₹12,171.09 crore during the period 2019-20 (₹29,715.87 crore) to 2023-24 (₹41,886.96 crore) at a CAGR of 8.96 per cent. During the current year, GSDP increased by ₹4,736.87 crore (12.75 per cent) over the previous year mainly due to increase in contribution under Agriculture, Service and Industry sectors.

The real GSDP of the State(s) in aggregate decelerated from 7.88 per cent in 2022-23 to 7.43 per cent in 2023-24. Similarly, the nominal GSDP of the State(s) in aggregate declined from 14.43 per cent in 2022-23 to 11.60 per cent in 2023-24. Except for Assam, Goa, Kerala, Mizoram, Odisha, Punjab, Sikkim and Uttarakhand, all the other States<sup>1</sup> exhibited a decline in GSDP in the financial year 2023-24.

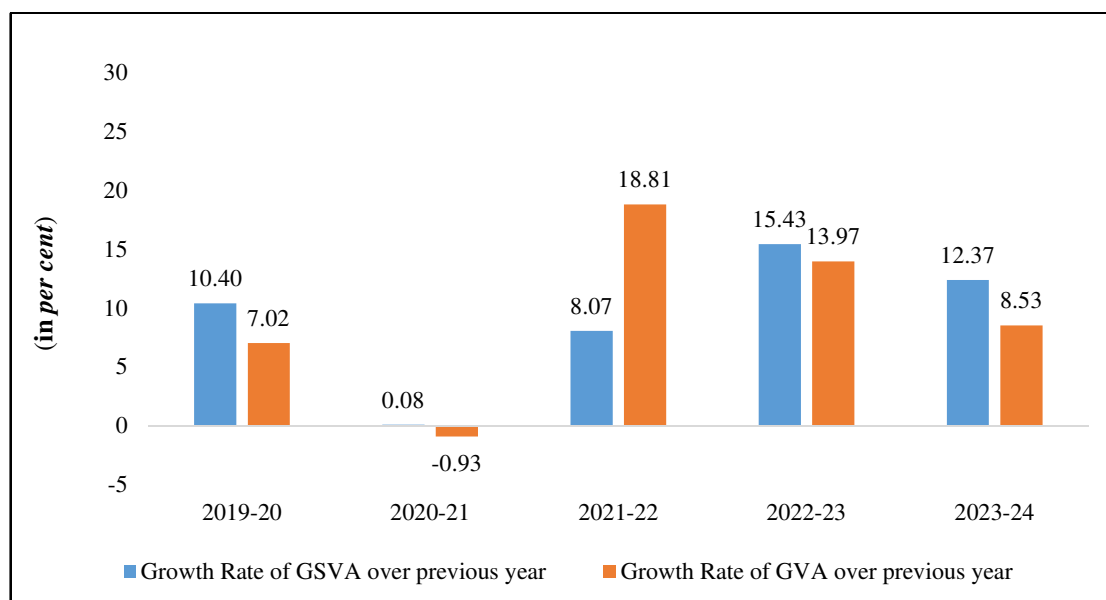
<sup>1</sup> Including UT of Jammu & Kashmir

Further, comparison of the GSDP projections by XV Finance Commission and the actual during 2023-24 revealed that the GSDP fell short of the assessment made by the XV FC during 2023-24. The actual GSDP during 2023-24 was ₹41,886.96 crore *i.e.*, 5.16 *per cent* (₹2,278.04 crore) less than the assessment made by the XV FC (₹44,165.00 crore). The annual growth rate of GSDP stood at 12.75 *per cent* during 2023-24 over the previous year.

From a policymaker's perspective, it is therefore vital to have a comparison of the GVA and Gross State Value Added (GSVA) data for better analysis and making policy interventions.

**Chart 1.1** depicts the trends of GSVA and GVA for the period from 2019-20 to 2023-24.

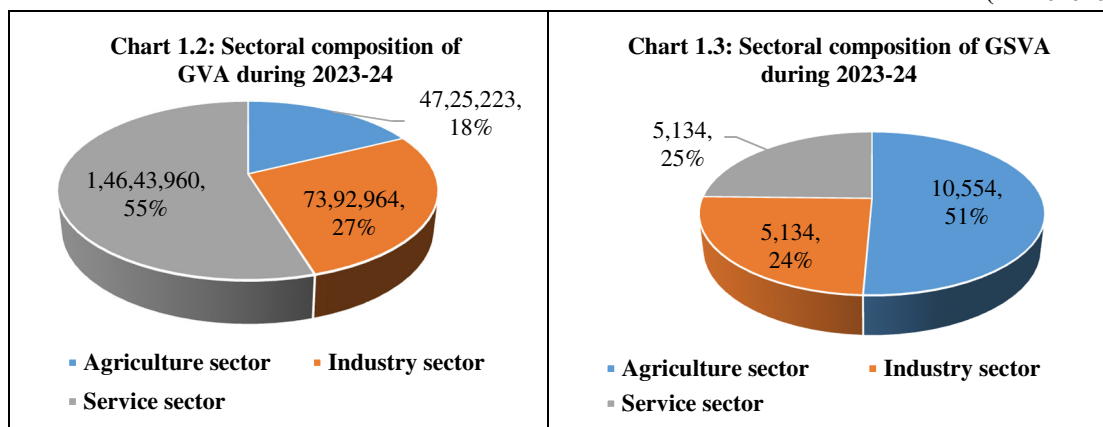
**Chart 1.1: Growth Rate of GSVA vs GVA (2019-20 to 2023-24)**



Source: GVA- National Statistical Office (MoSPI), GSVA -Directorate of Economics and Statistics, Government of Nagaland

As can be seen from the above **Chart 1.1** that during 2019-20 to 2023-24, the growth rates of GSVA and GVA showed a fluctuating trend. During the period, the growth rate of GSVA was higher than that of GVA in 2019-20, 2020-21, 2022-23 and 2023-24. The sectoral compositions to the GVA and GSVA during 2023-24 are given in the **Charts 1.2 and 1.3** respectively for comparison:

(₹ in crore)

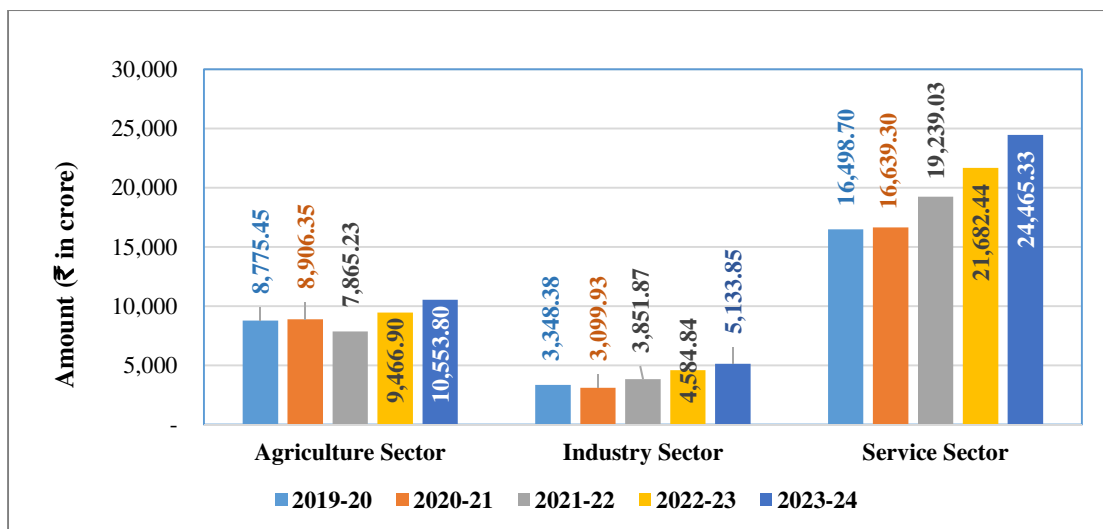


Source: GVA- National Statistical Office (MoSPI), GSVA -Directorate of Economics and Statistics, Government of Nagaland

It can be seen from the above **Charts 1.2 and 1.3** that the percentage contribution of the Agriculture sector to the GSVA is higher than the percentage contribution of the Agriculture sector to the GVA. Consequently, the percentage contribution of the Industry and Service sectors to the GSVA are less.

**Charts 1.4 and 1.5** depict the details of shift in sectoral contribution to GSDP and sectoral growth of the GSDP during the period 2019-24.

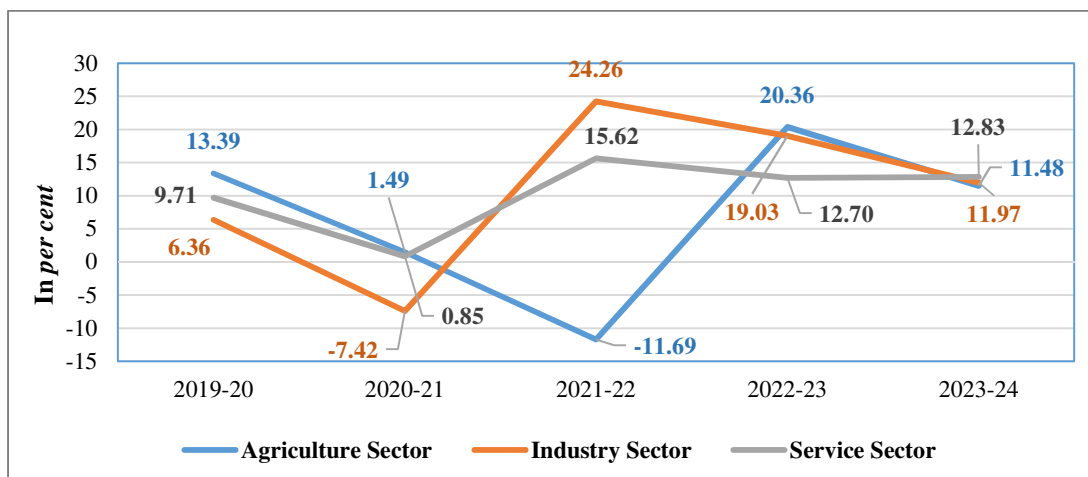
**Chart 1.4: Sectoral composition of GSDP (2019-20 to 2023-24)**



Source: Information furnished by the Directorate of Economics and Statistics, GoN

It can be seen from the **Chart 1.4** above that during the five-years period from 2019-20 to 2023-24, Service sector was the major contributor to the GSDP contributing over 50 per cent. During 2023-24, the Service sector contributed 58.41 per cent followed by Agriculture sector with 26.20 per cent and Industry sector with 12.26 per cent. Taxes on products - Subsidies on products formed 4.14 per cent of GSDP.

Chart 1.5: Sectoral growth in GSDP



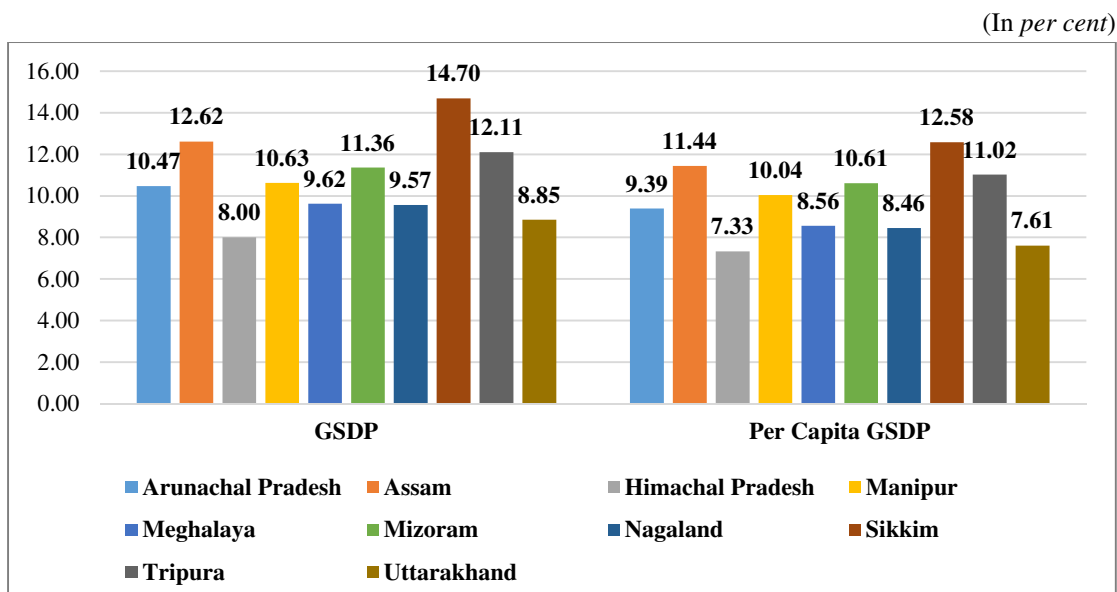
Source: Information furnished by Directorate of Economics and Statistics, Government of Nagaland

The sector-wise trend during the period from 2019-20 to 2023-24 is discussed below:

- (i) Agriculture Sector increased by ₹1,778.35 crore (20.27 per cent) during the period 2019-20 (₹8,775.45 crore) to 2023-24 (₹10,553.80 crore) at a CAGR of 4.72 per cent. During 2023-24, the major contributor in this sector was Crops (49.64 per cent) and Forestry and logging (42.96 per cent). The increase of ₹1,086.90 crore (11.48 per cent) during 2023-24 over the previous year was due to increase in activities under Forestry and logging and Crops by 17.14 and 8.94 per cent respectively.
- (ii) Industry Sector increased by ₹1,785.47 crore (53.32 per cent) during the period 2019-20 (₹3,348.38 crore) to 2023-24 (₹5,133.85 crore) at a CAGR of 11.28 per cent. During 2023-24, major contributors in this sector were Construction (67.83 per cent), electricity, gas, water supply and other utility services (15.64 per cent) and Mining and quarrying (10.61 per cent). The increase of ₹549.01 crore (11.97 per cent) during 2023-24 over the previous year was primarily due to increase in contribution under Mining and quarrying and construction by 22.86 per cent and 11.50 per cent respectively.
- (iii) Service Sector increased by ₹7,966.63 crore (48.29 per cent) during the period 2019-20 (₹16,498.70 crore) to 2023-24 (₹24,465.33) at a CAGR of 10.35 per cent. During 2023-24, the major contributors in this sector were Public Administration (31.64 per cent) and Other services (28.01 per cent). The increase of ₹2,782.89 crore (12.83 per cent) over the previous year was primarily due to increase in Financial services (15.71 per cent), Other services (14.42 per cent), Public Administration (14.06 per cent), trade, repair, hotels and restaurants (11.61 per cent) and transport, storage, communication & services related to broadcasting (11.01 per cent).

The decadal CAGR of the State *vis-à-vis* NE&H States is shown in **Chart 1.6**.

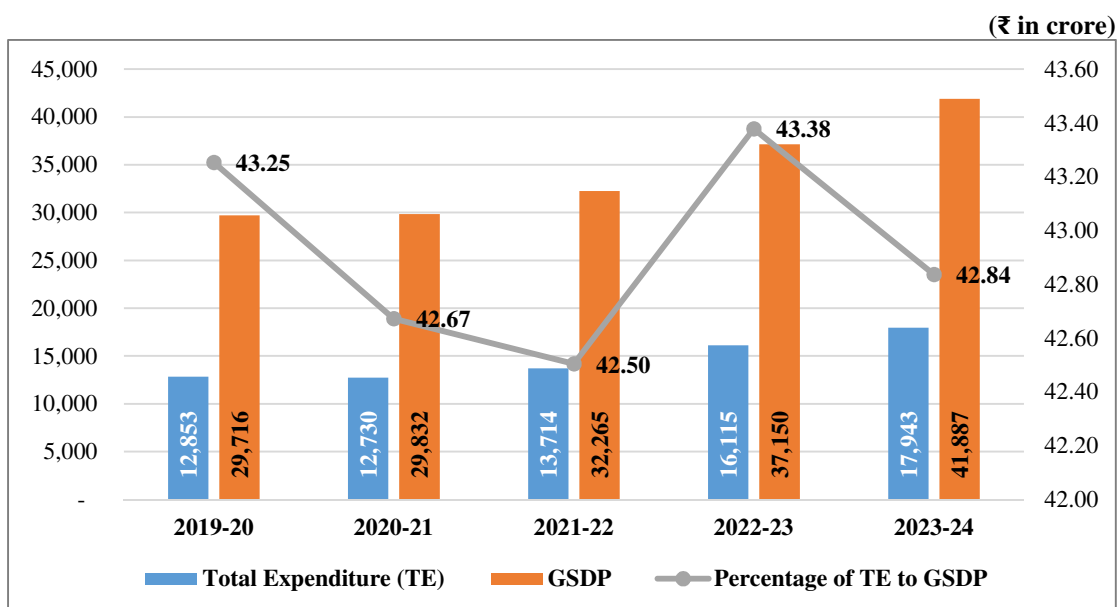
**Chart 1.6: Details of decadal CAGR of the NE&H States**



Source: A brief on the Finances of the States issued by Economic Division of Comptroller and Auditor General of India

The percentage of total State Government Expenditure to GSDP shows a fluctuating trend during the period from 2019-20 to 2023-24. During the same period, the percentage of total State Government Expenditure to GSDP ranged between 42.50 and 43.38. The trend of the percentage of Government Expenditure to GSDP for the period 2019-20 to 2023-24 is shown in **Chart 1.7**.

**Chart 1.7: Trend of Government Expenditure to GSDP for the period 2019-20 to 2023-24**



Source: GSDP – Directorate of Economics and Statistics, Government of Nagaland and Finance Accounts of the respective years

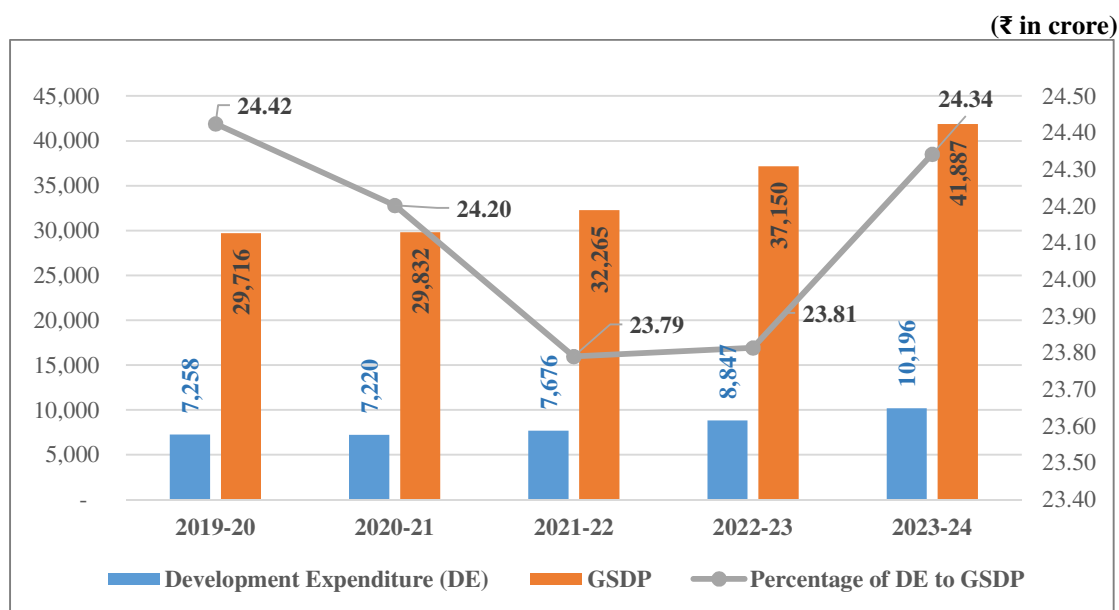
Government Expenditure is generally divided into Revenue and Capital Expenditure. Further, these two (Revenue and Capital) are classified into Developmental and



**Non-Developmental Expenditures.** Developmental Expenditures are expenditures on Economic services and Social services. Non-Developmental Expenditures are expenditures on Administrative and fiscal expenditures.

Increase in Developmental Expenditure leads to multiplier effect on economic growth of the State. Contribution of Development Expenditure in GSDP for the period from 2019-20 to 2023-24 is shown in **Chart 1.8**.

**Chart 1.8: Trends of Development Expenditure to GSDP for the period from 2019-20 to 2023-24**



Source: GSDP - Directorate of Economics and Statistics, Government of Nagaland and Finance Accounts of the respective years

It could be seen from **Chart 1.8** that relative share of Developmental Expenditure to GSDP for the State was in a fluctuating trend from 2019-20 to 2023-24. However, it showed an increasing trend from 2021-22 to 2023-24. This is indicative of healthy sign for economy and social development.

## 1.2 Basis and Approach to State Finances Audit Report

In terms of Article 151 (2) of the Constitution of India, 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. The State Finances Audit Report (SFAR) is prepared and submitted under Article 151 (2) of the Constitution of India.

The Principal Accountant General (Accounts and 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.

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

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

The analysis is also carried out in the context of recommendations of the XV FC, State Fiscal Responsibility and Budget Management Act, best practices and guidelines of GoI.

An Exit conference to discuss audit analysis/findings of Chapters I to IV of the Report was held on 16 December 2024 with the Commissioner & Secretary, Finance Department, Government of Nagaland (GoN). Replies furnished in the meeting have been suitably incorporated in the Report.

### 1.3 Overview of Government Accounts Structure and Budgetary Processes

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

#### **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 (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.

#### **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 State.

### Public Account of the State (Article 266 (2) of the Constitution of India)

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 the vote of the Legislature.

## 1.4 Budget Documents

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** consist of Tax Revenue, Non-Tax Revenue, share of Union Taxes/Duties, and Grants from Government of India.

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

The capital receipts consist of:

**Debt Receipts** include Market Loans, Bonds, Loans from financial institutions, Net transaction under Ways and Means Advances, Loans and Advances from Central Government, *etc.*;

**Non-debt Receipts** include proceeds from disinvestment, recoveries of loans and advances;

**Capital Expenditure** includes expenditure incurred with the objective of increasing concrete assets of a material and permanent character *viz.*, on the acquisition of land, building, machinery and equipment, investment in shares, and loans and advances by the government to PSUs and other parties.

At present, we have an accounting classification system in Government that is both functional and economic as shown in **Table 1.2**.

**Table 1.2: Accounting classification system in Government**

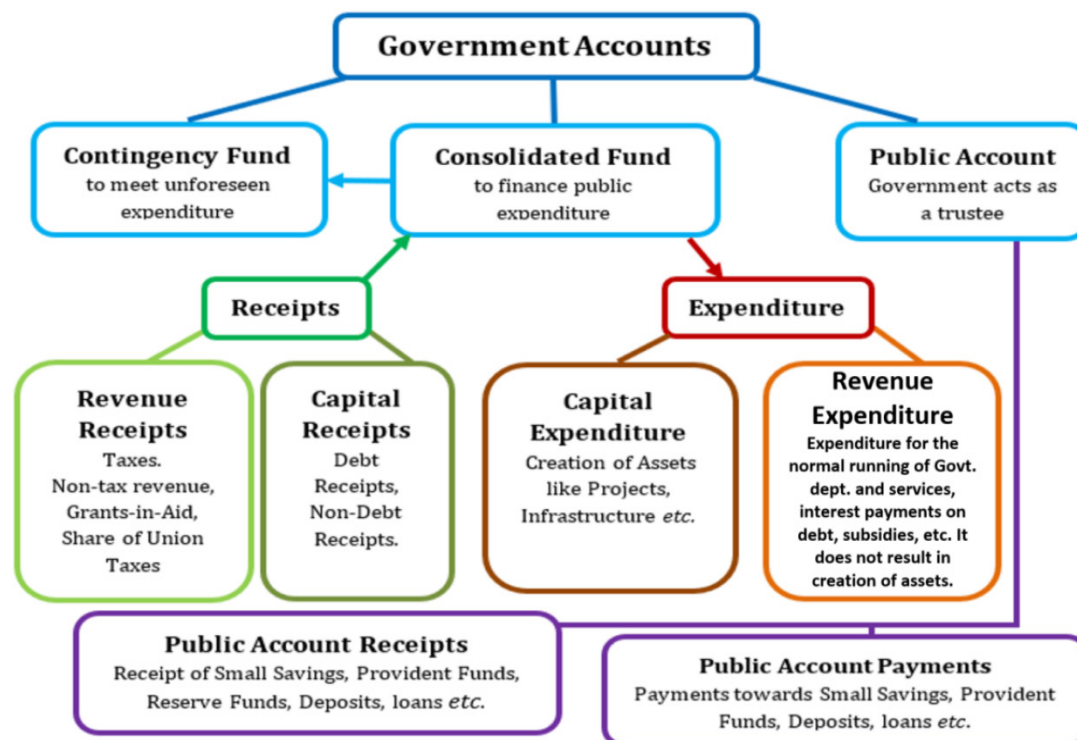
	Attribute of transaction	Classification
Standardised in LMMH by CGA	Function- Education, Health, <i>etc.</i> / Department	Major Head under Grants (4-digits)
	Sub-Function	Sub Major head (2-digits)
	Programme	Minor Head (3-digits)

	Attribute of transaction	Classification
Flexibility left for States	Scheme	Sub-Head (2 or 3 digits)
	Sub-scheme	Detailed Head (2 or 3 digits)
	Economic nature/ Activity	Object Head-salary, minor works, etc., (2-digits)

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, while “salary” object head is Revenue Expenditure, “construction” object head is Capital Expenditure. Object Head is the primary unit of appropriation in the budget documents.

The pictorial depiction of the structure of Government Accounts is given in **Chart 1.4**.

**Chart 1.4: Pictorial depiction of the structure of Government Accounts**



**Public Debt and Public Liability:** In this Report, “Public Debt” has been taken to comprise market borrowing, 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 to 6004.

### Budgetary Processes

In terms of Article 202 of the Constitution of India, the Governor of a State causes 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. Some States have more than one consolidated Budget—there could be sub-budgets like Gender Budget, Agriculture Budget, Weaker sections (SCs/ STs) Budget, Disability Budget, *etc.*

The Government of Nagaland (GoN) has not prepared its Budget manual so far. While formulating its Budget for 2023-24, the State Government introduced several significant and proactive policies to promote the overall development of the State and its people. However, no separate sub-budgets were prepared during 2023-24. Results of audit scrutiny of budget and implementation of other budgetary initiatives of the State Government are detailed in **Chapter III** of this Report.

### Summarised position of Finances

Details of actual financial results *vis-à-vis* Budget Estimates (BEs) for the year 2023-24 *vis-à-vis* actuals of 2022-23 are shown in **Table 1.3**. Time Series data of the Finances of the Government of Nagaland for the years 2019-20 to 2023-24 is given in **Appendix 1.3**.

**Table 1.3: Financial results *vis-à-vis* BEs**

Sl. No.	Components	2022-23 Actuals	2023-24		Percentage of Actuals to BEs	Percentage of Actuals to GSDP
			BEs	Actuals		
1.	Tax Revenue	6,862.07	7,381.77	8,024.91	108.71	19.16
	(i) Own Tax Revenue	1,461.88	1,569.72	1,598.09	101.81	3.82
	(ii) Share of Union taxes/ duties	5,400.19	5,812.05	6,426.82	110.58	15.34
	<i>Growth rate of Own Tax Revenue</i>	12.36	-	9.32	-	-
2.	Non-Tax Revenue	478.41	380.83	677.85	177.99	3.82
3.	Grants-in-Aid and Contributions	6,758.78	8,018.82	7,452.37	92.94	17.79
4.	<b>Revenue Receipts (1+2+3)</b>	<b>14,099.26</b>	<b>15,781.42</b>	<b>16,155.13</b>	<b>102.37</b>	<b>38.57</b>
	<i>Growth rate of Revenue Receipts</i>	4.82	-1.83	14.58	-	-
5.	Recovery of Loans and Advances	3.04	1.51	2.99	198.01	0.01

Sl. No.	Components	2022-23 Actuals	2023-24		Percentage of Actuals to BEs	Percentage of Actuals to GSDP
			BEs	Actuals		
6.	Other Receipts	450.00	0.00	0.00	0.00	0.00
7.	Borrowings and other Liabilities (a)	1,562.63	1,120.04	1,784.85	159.32	4.26
8.	<b>Capital Receipts (5+6+7)</b>	<b>2,015.67</b>	<b>1,121.55</b>	<b>1,787.44</b>	<b>159.37</b>	<b>4.27</b>
9.	<b>Total Receipts (4+8)</b>	<b>16,114.93</b>	<b>16,902.97</b>	<b>17,942.57</b>	<b>106.15</b>	<b>42.84</b>
10.	<b>Revenue Expenditure</b>	<b>13,410.36</b>	<b>15,099.66</b>	<b>14,819.70</b>	<b>0.23</b>	<b>35.38</b>
11.	Interest payments#	993.23	1,142.58	1,068.43	93.51	2.55
12.	<b>Capital Expenditure (b)</b>	<b>2,704.22</b>	<b>1,802.74</b>	<b>3,122.52</b>	<b>173.21</b>	<b>7.45</b>
13.	Loan and advances	0.35	0.57	0.35	61.40	0.00
14.	<b>Total Expenditure (10+12+13)</b>	<b>16,114.93</b>	<b>16,902.57</b>	<b>17,942.57</b>	<b>106.15</b>	<b>42.84</b>
15.	Revenue Deficit (-)/Surplus (+) (4-10)	688.90	681.76	1,335.43	195.88	<b>3.19</b>
16.	Fiscal Deficit (-)/Surplus (+) {(4+5+6) - 14}	(-)1,562.63	(-)1,120.04	(-)1,784.45	159.32	<b>4.26</b>
17.	Primary Surplus (+)/Deficit (-) (16-11)	(-)569.40	22.54	(-)716.02	3,176.66	<b>1.71</b>
18.	Own Tax Revenue buoyancy w.r.t. GSDP	0.86	-	0.73	-	-

Source: Finance Accounts, 2023-24 and Annual Financial Statement, 2023-24

(a) Borrowings and other Liabilities: Net (Receipts-Disbursements) of Public Debt + Net of Contingency Fund + Net (Receipts-Disbursements) of Public Account + Net of Opening and Closing Cash Balance.

(b) Expenditure on Capital Account includes Capital Expenditure and Loans and Advances disbursed.

# Included in the Revenue Expenditure shown at Sl. No. 10.

- During 2023-24, the State had a Revenue surplus of ₹1,335.43 crore which was 3.19 per cent of GSDP. Fiscal deficit was ₹1,784.45 crore during 2023-24 which was 4.26 per cent of GSDP and primary surplus was ₹716.02 crore, 1.71 per cent of GSDP.
- Own Tax Revenue and Non-Tax Revenue exceeded the BEs while Grants-in-Aid (GIA) from GoI fell short of BEs. Overall Revenue Receipts of the State exceeds the BEs mainly due to increase in Own Tax, Non-Tax Revenue and share of Union taxes/duties.
- During 2023-24, the State continued as a Revenue Surplus State due to higher amount of increase in Revenue Receipts as compared to increase in Revenue Expenditure. Revenue Receipts increased by ₹2,055.87 crore (14.58 per cent) from ₹14,099.26 crore in 2022-23 to ₹16,155.13 crore in 2023-24. Revenue Surplus increased from ₹688.90 crore in 2022-23 to ₹1,335.43 crore in 2023-24, mainly due to a significant increase in Non-Tax Revenue (41.69 per cent) and share of Union taxes/duties (19.01 per cent).
- Fiscal Deficit increased over the previous year by ₹221.82 crore (14.20 per cent) from ₹1,562.63 crore in 2022-23 to ₹1,784.45 crore in 2023-24. The Government's Capital Expenditure increased by ₹418.30 crore (15.47 per cent) from ₹2,704.22 crore in 2022-23 to ₹3,122.52 crore in 2023-24.



### Summarised position of Assets and Liabilities of the Government

Government accounts capture the financial liabilities of the Government and 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.

Financial position of Government of Nagaland as on 31 March 2024 is given in **Appendix 1.2**. Summarised position of Assets and Liabilities of the State for the year 2023-24 as compared to the previous year 2022-23 is shown in **Table 1.4**.

**Table 1.4: Summarised position of Assets and Liabilities**

(₹ in crore)

Liabilities					Assets				
		2022-23	2023-24	Increase (in per cent)			2022-23	2023-24	Increase (in per cent)
Consolidated Fund									
A	Internal Debt	12,133.46	13,864.31	14	A	Gross Capital Outlay	25,572.06	28,694.61	12
B	Loans and Advances from GoI*	1,108.35	2,079.75	88	B	Loans and Advances	39.48	36.85	-7
Contingency Fund		0.35	0.35	0					
Public Account									
A	Small Savings, Provident Funds, etc.	1,463.08	1,387.12	-5	A	Advances	0.57	1.99	249
B	Deposits	898	871.58	-3	B	Remittance			
C	Reserve Fund	1,602.41	1,724.29	8	C	Suspense and Miscellaneous	80.55	50.14	-38
D	Remittances	-785.14	-759.92	3	Cash balance (including investment in Earmarked Fund)		2,755.02	3,746.55	36
E	Cumulative excess of Receipts over Expenditure	12,027.17	13,362.61	11					
Total		28,447.68	32,530.11	14			28,447.68	32,530.11	14

Source: Finance Accounts of respective years

\* The State has not received any back-to-back loans in lieu of GST Compensation shortfall from GoI

As can be seen from **Table 1.4**, Assets and Liabilities of the State during 2023-24 showed an increase of 14 per cent over the previous year. The increase in Liabilities was mainly due to increase in Internal Debt (14 per cent) and Loans & Advances from GoI (88 per cent), which was offset by decrease in Small Savings, Provident funds, etc., (five per cent) over the previous year. Similarly, increase in Assets was mainly due to increase in Gross Capital Outlay (12 per cent) and Cash balance (including investment in Earmarked Fund) (36 per cent).

### 1.5 Fiscal Balance: Achievement of deficit and total debt targets

The Central and individual State Governments have passed Fiscal Responsibility and Budget Management (FRBM) Act with the objective of ensuring prudence in fiscal management by eliminating revenue deficit, reducing fiscal deficit and overall/ outstanding debt to acceptable level, establishing improved debt management and

improving transparency in a medium-term framework. The Act provides quantitative targets to be adhered by the State with regard to deficit measures and debt level.

The Government of Nagaland enacted the Nagaland Fiscal Responsibility and Budget Management (NFRBM) Act, 2005 in line with the Union FRBM Act, 2003, to ensure stability and sustainability, improve efficiency and transparency in management of public finances, enhance the availability of resources by achieving sufficient revenue surplus, reduce fiscal deficit and remove impediments to effective conduct of fiscal policy and prudent debt management.

In line with the recommendations of the Central Finance Commissions, the NFRBM Act was subsequently amended *i.e.*, July 2009, March 2011, February 2021, November 2021 and March 2022.

Status of achievement *vis-à-vis* projections made in the Act during the period 2019-20 to 2023-24 is given in **Table 1.5**:

**Table 1.5: Compliance with the projections of FRBM/ MTFP**

Fiscal Parameters	Projections	Achievement				
		2019-20	2020-21	2021-22	2022-23	2023-24
Revenue Deficit (-)/ Surplus (+) (₹ in crore)	Maintain Revenue Surplus*	(-)213.73	375.37	1,634.06	688.90	1,335.43
		X	✓	✓	✓	✓
Fiscal Deficit as per cent of GSDP	2019-20: 5.00# 2020-21: 5.00 2021-22: 4.00 2022-23: 3.50 2023-24: 3.00	4.81	4.36	0.81	4.21	4.26
		✓	✓	✓	X	X
Ratio of total outstanding liability to GSDP (per cent)	2019-20: 40.00* 2020-21: 45.20 2021-22: 43.00 2022-23: 42.10 2023-24: 40.60	40.99	45.16	43.15	41.96	43.42
		X	✓	X	✓	X

Source: Finance Accounts, NFRBM Act and MTFP statements of respective years

\*NFRBM Act amended by GoN did not include target of Revenue Surplus, Fiscal Deficit as per cent of GSDP and outstanding liability as percentage to GSDP in these years, these figures are taken from the Fiscal Indicators-Rolling targets MTFP Statement.

#NFRBM (Amendment) Act, 2021 relaxed a maximum of two per cent above the prescribed limit of three per cent of GSDP

Nagaland is the only State apart from Uttarakhand which continued to have Revenue Surplus in four (from 2020-21 to 2023-24) out of five years during the period from 2019-20 to 2023-24.

The State was successful in maintaining the Fiscal Deficit as per the prescribed *per cent* of GSDP from 2019-20 to 2021-22. However, during 2023-24, the State registered Fiscal Deficit like all other States in India.

Despite an increase in absolute terms, growth of 11.60 *per cent* observed in nominal GSDP corresponding to an increase of 19.03 *per cent* in overall debt of the States in 2023-24 led to the increase in the debt to GSDP ratio from 26.70 *per cent* in 2022-23 to 28.50 *per cent* in 2023-24. Similarly, the debt to GSDP ratio of the State increased from 41.96 *per cent* in 2022-23 to 43.42 *per cent* in 2023-24. However, the State



succeeded in anchoring the ratio of total outstanding debt to GSDP during 2020-21 and 2022-23.

During the Exit conference (16 December 2024), Finance Department, Government of Nagaland stated that non-achievement of the target of Debt to GSDP ratio was due to loan received from GoI under Special Assistance to State for Capital Expenditure.

As per the Nagaland FRBM Act, 2005, Medium-Term Fiscal Policy (MTFP) Statement shall set forth a three-year rolling target for prescribed fiscal indicators with specification of underlying assumptions. The position of projections made by the State Government in its MTFPS *vis-à-vis* achievements during the year 2023-24 is depicted in **Table 1.6**.

**Table 1.6: Actuals *vis-à-vis* projection in MTFPS for 2023-24**

(₹ in crore)

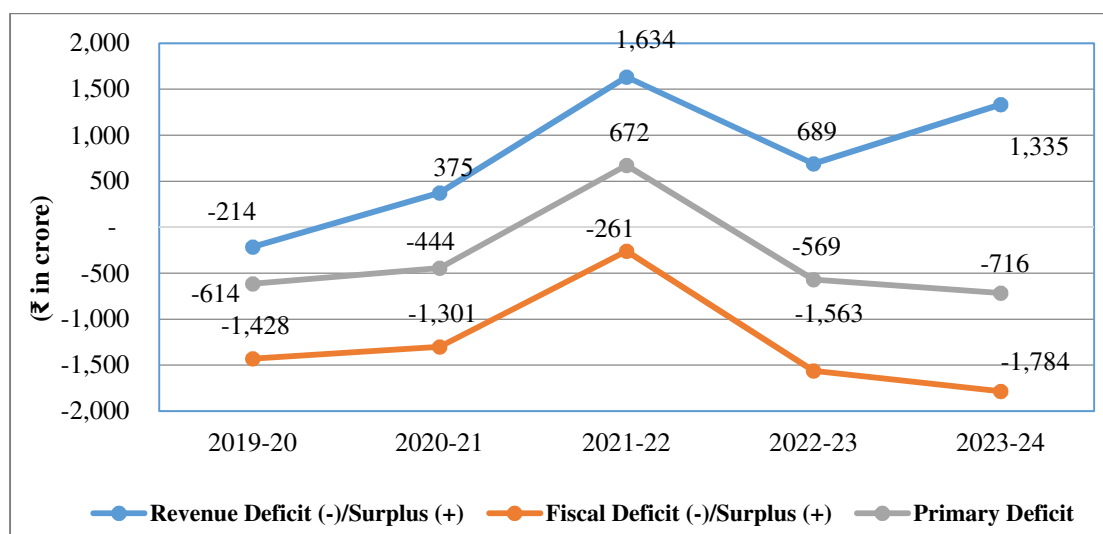
Sl. No.	Fiscal Variables	Projection as per MTFPS	Actuals (2023-24)	Variation (Excess (+)/ Short (-)) (in per cent)
1.	Own Tax Revenue	1,667.32	1,598.09	(-) 69.23 (4.15)
2.	Non-Tax Revenue	684.92	677.85	(-) 7.07 (1.13)
3.	Share of Central Taxes	6,284.57	6,426.82	(+) 142.25 (2.26)
4.	Grants-in-Aid from GoI	7,951.21	7,452.37	(-) 498.84 (6.27)
5.	<b>Revenue Receipts (1 + 2 + 3 + 4)</b>	<b>16,588.02</b>	<b>16,155.13</b>	<b>(-) 432.89 (2.61)</b>
6.	<b>Revenue Expenditure</b>	<b>16,145.53</b>	<b>14,819.70</b>	<b>(-) 1,325.82 (8.21)</b>
7.	GSDP (at current prices)	45,422.00	41,886.96	(-) 3,535.04 (7.78)
8.	Revenue Surplus (5 - 6)	442.49	1,335.43	(+) 892.93 (201.80)
9.	Fiscal Deficit	2,753.75	1,784.45	(-) 969.29 (35.00)
10.	Debt-GSDP ratio (per cent)	39.60	43.42	(+) 3.82
11.	Fiscal Deficit as per cent of GSDP	6.06	4.26	(-) 1.80
12.	GSDP growth rate at current prices (per cent)	-	12.75	(-) 14.80

Source: MTFP Statement and Finance Accounts, 2023-24

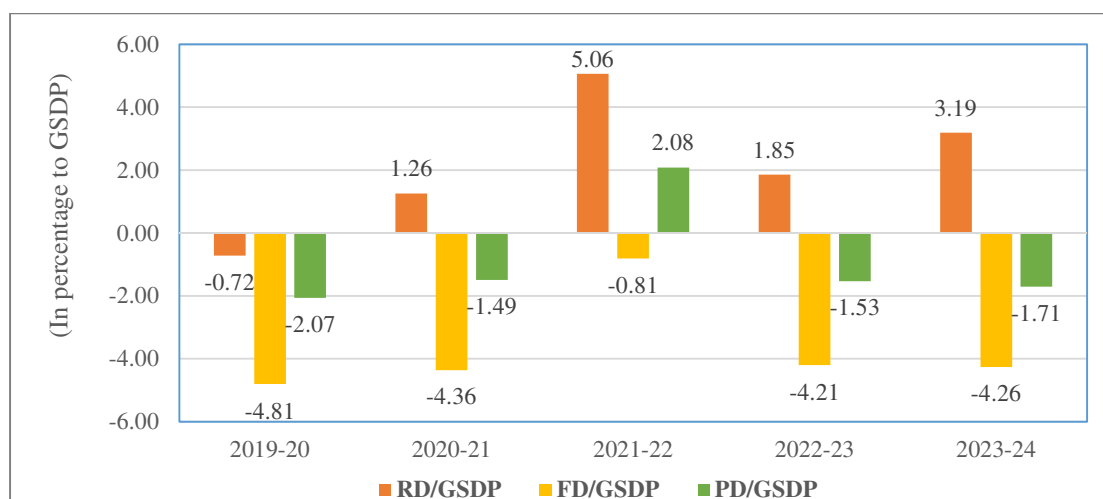
As can be seen from **Table 1.6**, projection was made in the MTFPS for the year 2023-24 relating to two key fiscal parameters *i.e.*, Revenue Surplus and Fiscal Deficit. The State Government could achieve the targets relating to both Fiscal Deficit and Revenue Surplus as *per cent* of GSDP and was also successful in achieving the target related to Revenue Surplus. However, the projection relating to the Debt-GSDP ratio projection was not met.

Audit concludes that the State exhibited prudent revenue expenditure management, resulting in a higher-than-projected Revenue Surplus. Lower fiscal deficit suggests improved fiscal sustainability; however, the increase in the Debt-to-GSDP ratio is a concern for long-term fiscal health. Underperformance in tax and non-tax revenues indicates a need for better revenue mobilization efforts. GSDP growth rate being lower than expected signals economic slowdown, impacting overall fiscal planning.

**Charts 1.9 and 1.10** present the trends in deficit parameters and trends relative to GSDP respectively over the period 2019-20 to 2023-24.

**Chart 1.9: Trends in deficit parameters**

Source: Finance Accounts of respective years and GSDP-Directorate of Economics and Statistics, GoN

**Chart 1.10: Trends in Surplus/ Deficit relative to GSDP**

Source: Finance Accounts of respective years and GSDP-Directorate of Economics and Statistics, GoN  
RD: Revenue Deficit; FD: Fiscal Deficit; PD: Primary Deficit

Revenue Surplus indicates excess of Revenue Receipts over Revenue Expenditure increased to ₹1,335.43 crore (3.19 per cent of GSDP) in 2023-24 from ₹375.37 crore (1.26 per cent of GSDP).

Fiscal deficit, which represents total borrowings of the State *i.e.*, its total resource gap, increased to ₹1,784.45 crore (4.26 per cent of GSDP) in 2023-24 from ₹1,428.22 crore (4.81 per cent of GSDP) in 2019-20.

Primary deficit, which indicates the excess of primary expenditure (total expenditure net of interest payments) over non-debt receipts, increased to ₹716.02 crore (1.71 per cent of GSDP) from ₹569.40 crore (1.53 per cent of GSDP) in 2022-23. During 2021-22, there was primary surplus of ₹671.57 crore (2.08 per cent of GSDP).

Revenue Surplus growth is a positive sign, allowing more funds for capital investment rather than funding recurring expenses through borrowing.

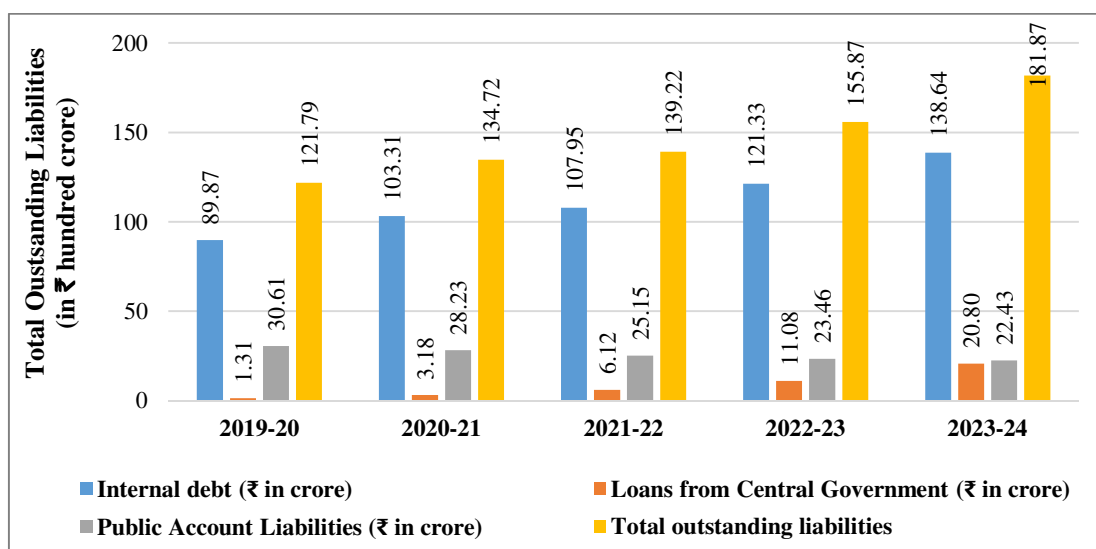
Fiscal Deficit remains significant but has declined as a percentage of GSDP, indicating that borrowing is being managed relative to economic growth.

The rise in Primary Deficit suggests an increasing reliance on borrowed funds to meet non-interest expenditures, requiring a reassessment of expenditure priorities.

Prudent fiscal management is needed to ensure that debt-financed spending is focused on asset creation rather than recurring expenditures. A long-term fiscal consolidation roadmap should aim at sustaining Revenue Surplus while reducing Primary and Fiscal Deficits through enhanced revenue mobilization and expenditure efficiency.

**Chart 1.11** presents the trends in Fiscal Liabilities and GSDP *vis-à-vis* target set by the State Government in its MTFP statement over the period 2019-20 to 2023-24.

**Chart 1.11: Trends in Fiscal Liabilities and GSDP**



Source: Finance Accounts of respective years, Budget documents, FRBM Act and GSDP-Directorate of Economics and Statistics, GoN

As can be seen from **Chart 1.11**, the total outstanding liabilities showed an increasing trend during the five-year period from 2019-20 to 2023-24. The increasing trend was mainly due to increase in Internal Debt and Loans from Central Government. During this period, the total outstanding liabilities to GSDP ratio was below the norm set by the State Government in its MTFPS/FRBM in 2020-21 and 2022-23.

## 1.6 Deficits and Total Debt after examination in audit

In order to present a better picture of State Finances, State Government tends to classify Revenue Expenditure as Capital Expenditure and to conduct off-budget financial activities.

As per the FRBM Act, the State Government must ensure compliance to the targets fixed for the fiscal indicators such as deficits, ceiling on debt and on guarantees. The Revenue Deficit and the Fiscal Deficit as worked out for the State gets 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 also impacts

the revenue and fiscal deficit figures. In order to arrive at actual deficit figures, the effect of misclassification needs to be included and the impact of such irregularities needs to be reversed.

### Post audit - Deficits

Audit noticed overstatement of Revenue Surplus by ₹55.63 crore and understatement of Fiscal Deficit by ₹42.18 crore for 2023-24, as shown in **Table 1.7**.

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

Particulars	Impact on (₹ in crore) {Understated (+)/ overstated (-)}		Paragraph Reference
	Revenue Surplus	Fiscal Deficit	
Interest adjustment on Defined Contribution Pension Scheme	(-) 2.00	(+) 2.00	Para 2.4.2.3
Short transfer of Labour Cess	(-) 0.17	(+) 0.17	Para 2.5.2.6 (i)
Short transfer of Central Road and Infrastructure Fund (CRIF)	(-) 16.06	(+) 16.06	Para 2.5.2.6 (ii)
Minor works budgeted/ booked under Capital Section instead of Revenue	(-) 14.42	-	Para 3.3.2
Major works budgeted/ booked under Revenue Section instead of Capital	(+) 0.97	-	Para 3.3.2
Non-transfer of National Road Safety Fund	(-) 23.95	(+) 23.95	Para 4.1
<b>Total</b>	<b>(-) 55.63</b>	<b>(+) 42.18</b>	

Source: Finance Accounts, 2023-24

Based on the result of examination of misclassification during post audit, the Revenue Surplus would reduce from ₹1,335.43 crore<sup>2</sup> to ₹1,279.80 crore and Fiscal Deficit would increase from ₹1,784.45 crore<sup>3</sup> to ₹1,826.63 crore.

### Post audit-Total outstanding Debt

As per the NFRBM Act, 2005 total liabilities mean the liabilities under the Consolidated Fund and the Public Account of the State referred to in Article 266 of the Constitution of India. The outstanding Debt/liabilities can be split into various components as given in **Table 1.8**.

**Table 1.8: Components of outstanding Debt/liabilities as on 31 March 2024**

(₹ in crore)

Borrowings and other liabilities as per Finance Accounts	Amount
<b>Internal Debts (A)</b>	<b>13,864.31</b>
Market Loans	13,430.32
Loans from other Institutions	379.73
Ways and Means Advance from the Reserve Bank of India	0.00
Special Securities Issued to National Small Savings fund of the central Government	54.25
<b>Loans and Advances from central Government (B)</b>	<b>2,079.75</b>
Non-Development Loans	8.86
Loans for State/Union Territory Schemes	0.51
Others	2,070.38
<b>Liabilities upon Public Accounts (C)</b>	<b>2,243.26</b>
Small Savings, Provident Funds, etc.	1,387.12
Reserve Funds	-15.44
Deposits	871.58
<b>Total (A+B+C)</b>	<b>18,187.32</b>

Source: Finance Accounts, 2023-24

<sup>2</sup> Refer Para 1.4 Sub Para Summarised position of Finances

<sup>3</sup> Refer Para 1.4 Sub Para Summarised position of Finances

The overall outstanding debt/liabilities of the State were overstated by ₹810.05 crore by not accounting for the Suspense (Dr. ₹50.14 crore) and Remittance balances (Dr. ₹759.91 crore), thereby overstating the same with respect to GSDP by 1.93 *per cent* at the end of the year 2023-24.

## 1.7 Conclusion

Gross State Domestic Product (GSDP) (at current prices) grew at a CAGR of 8.96 *per cent* from ₹29,715.87 crore in 2019-20 to ₹41,886.96 crore in 2023-24. During 2023-24, GSDP increased by ₹4,736.87 crore (12.75 *per cent*) from ₹37,150.09 crore in 2022-23 to ₹41,886.96 crore in 2023-24.

The FRBM Act/ Rules prescribes the limits of revenue deficit, fiscal deficit, debt as a percentage of the Gross State Domestic Product (GSDP). The State Government was successful in maintaining the Revenue Surplus in four out of five years during the period from 2019-20 to 2023-24. The State could achieve in maintaining the Fiscal Deficit as per the prescribed *per cent* of GSDP in three out of five years during the period from 2019-20 to 2023-24. The State also succeeded in maintaining the ratio of total outstanding debt to GSDP during 2020-21 and 2022-23.

The gap between the Revenue Receipts and Revenue Expenditure results in Revenue Surplus. The gap between the total expenditure and total non-debt receipt of the State results in Fiscal Deficit. The State had a Revenue surplus of ₹1,335.43 crore which was 3.19 *per cent* of GSDP. Fiscal deficit was ₹1,784.45 crore during 2023-24 which was 4.26 *per cent* of GSDP and primary deficit was ₹716.02 crore, 1.71 *per cent* of GSDP.

Revenue Surplus increased from ₹688.90 crore in 2022-23 to ₹1,335.43 crore in 2023-24, mainly due to a significant increase in Revenue Receipts (14.58 *per cent*). Fiscal Deficit (₹1,784.45 crore) increased by ₹221.82 crore (14.20 *per cent*) as compared to the previous year (₹1,562.63 crore). Based on the result of examination of misclassification during post audit, the Revenue Surplus will reduce from ₹1,335.43 crore to ₹1,279.80 crore and Fiscal Deficit will increase from ₹1,784.45 crore to ₹1,826.63 crore.

## 1.8 Recommendations

- State Government needs to make continued efforts to achieve in the coming years, the projections on deficit and debt parameters made in the Nagaland FRBM Act.
- The State Government should adhere to the proper accounting norms and steps may be taken to transfer the amount to the appropriate head of accounts as per the accounting norms.
- The State Government should consider the actual transactions/ misclassification *etc.*, while determining the Revenue Surplus/ Fiscal Deficit.

