सत्यमेव जयते

GOVERNMENT OF MIZORAM

MEDIUM TERM FISCAL POLICY STATEMENT

(As required under Section 5(1) of

The Mizoram Fiscal Responsibility and Budget Management Act, 2006)

GOVERNMENT OF MIZORAM

2012-2013

(16th July, 2012)

FORM – I

(See Rule 3)

MEDIUM TERM FISCAL POLICY STATEMENT

A. FISCAL INDICATORS – ROLLING TARGETS

Sl. No	Item	2010-11 (Actuals)	2011-12 (Budget Estimates)	2011-12 (Revised Estimates)	2012-13 (Budget Estimates)	Targets for next Two Years	
						2013-14 (Proj)	2014-15 (Proj)
1	Revenue Deficit(-) / Surplus(+) as a percentage of GSDP	1.98	4.61	2.77	7.83	7.72	7.72
2	Fiscal Deficit as a percentage of GSDP	8.25	2.47	7.02	3.31	2.96	2.96
3	Total outstanding Liabilities as a percentage of GSDP	61.03	56.87	57.13	54.40	49.78	49.70
4	Total outstanding Liabilities as a percentage of Total Revenue Receipt(TRR)	109.56	106.07	96.77	90.95	86.49	82.24
5	Interest Payments as a percentage of Total Revenue Receipt(TRR)	3.12	7.24	6.58	5.05	5.03	5.03

Notes:

1. *GSDP is the Gross State Domestic Product at factor cost at current prices.*
2. *For the purpose of estimating the percentage of the above indicators, latest series of GSDP at current prices recently brought out by Economics & Statistics Dept… is taken into account.*

1. The Eleventh Finance Commission (2000-2005), realising the significance of fiscal management in the State, recommended intense Medium Term Fiscal Reforms Programme for all State Government. In continuation to this reforms programme, Twelfth Finance Commission (2005-2010) imposed tighter fiscal rules and regulations to the State finances by linking various grants and loans to be availed by the State with the State's enactment of the Fiscal Responsibility Legislation. In line with these fiscal reforms, Mizoram Fiscal Responsibility and Budget Management (MFRBM) Act, 2006 was legislated and enacted to be the guidepost for the fiscal management of the State. To push further, Thirteenth Finance Commission (2010-2015) introduced many important fiscal reforms features which, *inter alia,* include reduction of Revenue Deficit to zero and Fiscal deficit to 3 percent of GSDP by 2014-15.

2. Besides, the State Government is also required to ensure its total outstanding debt, excluding Public Account and Risk weighed outstanding guarantees in a year shall not exceed twice of the estimated receipt in the Consolidated Fund of the State at the close of the financial year. All these recommendations of successive Finance Commissions were made compulsory for all the State Governments by way of interlinking with the chance of debt write off and availing of various Awards as a result of which many State Governments complied with and carried out legislation and enactment of these recommendations. Mizoram State is one of the States which has harvested the fruitful result of these well disciplined recommendations which are evidenced by the achievement in terms of zero Revenue Deficit and keeping the level of borrowings below the pre-determined level. Owing to this achievement, the revenue surplus attained since 2003-04 has continually been maintained. The percentage of Gross Fiscal Deficit compared to GSDP in the last two years has also been monitored vigorously. The outstanding debt also shows remarkable improvement by gradually reducing the alarmingly increasing percentage of debt from the fiscal year 2008-09 onwards.

3. The pre-MFRBM era of Mizoram State may be briefly mentioned in order to highlight the positive impact of FRBM in the State finances. During that period, fiscal deficit of the State was very high and lapsing into overdrafts also happened occasionally. Besides, the revenue account of the State Consolidated fund showed a deficit account thereby leading to crippling of the State Government from enhancing the Capital Outlay for creation of durable assets and for planning long term economic development.

4. Meanwhile, the post-MFRBM era shows remarkable improvement in key fiscal indicators of the State finances like Revenue surplus, Fiscal deficit, Outstanding debt etc… As stated above, Thirteenth Finance Commission recommended interlinking of debt relief measure for the State Government with the degree of their compliance on various target set for them. Even the market borrowing ceiling for a State for a particular year is also recommended to be determined using the mathematical formula as provided in Para 9.85 of FC-XIII report Vol-I. As a result of revised roadmap prescribed by FC-XII which is further recommended by FC-XIII for fiscal consolidation of the State, Government of Mizoram enacted Mizoram Fiscal Responsibility and Budget Management (MFRBM) Act, 2006 and its connected rules were notified in 2007. Since then, the fiscal management of Mizoram has been undertaken under the strict and stringent guidance of MFRBM Act, 2006.

5. Fortunately, total devolution recommended by Thirteenth Finance Commission i.e. **₹ 8805.30 crore** exceeded the recommendation of Twelfth Finance Commission i.e. **₹ 4660.91 crore** by a huge margin of **₹ 4414.39 crore** which is an increase of **88.92 per cent.** This larger inflow of subvention from Central Government is one of the main reasons for which the State Government can run its normal functions without much hiccups till date.

6. The performance of the State for the last few years on some key fiscal indicators may be highlighted for further study. Revenue surplus during 2010-11 (pre-actual) was **₹ 119.68 crore** and fiscal deficit during the same fiscal was also **₹ 499.60 crore.** In the Revised Estimates of 2011-12, the Revenue surplus during was estimated to be **₹ 193.66 crore** whereas the fiscal deficit during the same financial year was also estimated at **₹ 490.86 crore.** During current financial year, the revenue account is estimated to be in a surplus to the tune of **₹ 627.77 crore** and fiscal deficit is also anticipated to be **₹ 265.62 crore** at the end of the financial year. Compared to various targets prescribed by Thirteenth Finance Commission on these key fiscal indicators, one can observe, especially on the revenue account during the past few years as a percentage of GSDP, that the performance of State finances is quite encouraging. The reasons for this performance could be mainly ascribed to fiscal discipline as well as economy measures undertaken by State Government.

7. As conditions laid down by Thirteenth Finance Commission in its report Volume-I, chapter 9 for the revised roadmaps for fiscal consolidation and Rules laid down under FRBM Act, 2006, the State Government is required to present Medium Term Fiscal Policy Statement in the legislative Assembly along with other Budget documents and at the same time, it is also required to draw up a fiscal policy that will guide the fiscal performance of State Government over the medium term. For that, the following salient features of revised roadmaps for fiscal consolidation as recommended by Thirteenth Finance Commission may be delineated once again as below:

(a) *State Government should amend/enact FRBM Acts to build in the fiscal reform path worked out. State specific grants recommended for a state to be released upon compliance of FRBM.*

(b) *Fiscal deficit should be reduced relative to GSDP progressively and Government of Mizoram should limit its fiscal deficit to 3 per cent of GSDP by 2014-15.*

(c) *Revenue Deficit of the Centre and the States needs to be progressively reduced and eliminated, followed by emergence of a revenue surplus by 2014-15.*

(d) *Reduce aggregate debt stock of the Central and State Governments to 68 per cent of GSDP by end of the award period (2014-15). The Central Government's debt will come down to 45 per cent of GSDP and combined debt of the State Government at 25 per cent.*

8. It may be desirable to look into some significant changes on some macro-economic parameters during the last fiscal. There was a heavy outgo of cash from Consolidated Fund of the State as a result of retrospective revision of power tariff with effect from 2004 by Central Electricity Regulatory Commission (CERC). Owing to this, Government of Mizoram received supplementary bills from various Power utilities like NEEPCO, NHPC and PGCIL amounting to **₹ 41.35 crore** (up to January, 2012) in the near end of last financial year which was, actually, not anticipated at the time of budget allocation at the beginning of the year. This fiscal burden was compounded by the additional bills amounting to **₹ 22.25 crore** which accrued as a result of availing Unscheduled Interchange during the peak period. This kind of incident which happened in the post budget-preparation severely impacted negatively the state finance which was testified by unexpected budget escalation in the Revised Estimate. More precisely, an amount of **₹ 75.00 crore** was initially allocated for purchase of power in the Budget Estimates. Owing to the

above incidents, it was required to revise the Budget Estimates to alarmingly high figure of **₹ 180.72 crore** in the Revised Estimate which is an increase of *140.96 per cent*. This results into higher fiscal deficit and lower Revenue surplus than initially estimated.

9. Central Government witnessed fiscal turmoil during two financial years 2008-09 and 2009-10. However, there was a robust revival of growth in Indian economy during 2010-11 so that budget of 2011-12 was prepared against this backdrop. Unfortunately, in the post-budget presentation, the global hardening of crude oil prices and sticky high inflation scenario in the domestic economy forced the Central Government to make necessary changes in policy stance during 2011-12. These necessary changes in the policy stance adversely affected state economy correspondingly. For instance, Share in taxes was usually estimated in the State Budget every year based on the estimate of Central Government. During 2011-12, share of Mizoram state in Devolution of Central Taxes & Duties was estimated to be **₹ 709.73 crore.** However, the actual devolution during the period was **₹ 688.26 crore** only thereby making the difference to be **₹ 21.47 crore.** Percentage of shortfall is calculated to be *3.03 per cent*. Similarly, the actual devolution of Normal Central Assistance also fell short of the initial estimate. In the budget estimate, **₹ 697.03 crore** was anticipated to come. However, the total devolution during the year was **₹ 682.75 crore** making a short fall of **₹ 14.28 crore.** One may realize how heavy the impacts of this shortcoming are in the fiscal position of resource-deficient State like Mizoram.

10. As we are entering the first year of Twelfth Five Year Plan, the State plan formulation is also expected to fall in line with the objective of Twelfth FY Plan devised by Planning Commission of India. Therefore, to cope with the expectation and anticipation of Central Government, the objectives of Twelfth Five Year Plan may be highlighted as under:

- **i)** **Basic objective:** Faster, More Inclusive, and Sustainable Growth.
- **ii)** **Growth rate target:** Aim at 9 to 9.5 per cent.
- **iii)** **Major sectoral challenges:** Energy, Water and Environment present major sectoral challenges.
- **iv)** **One major challenges to overcome**: Creation of a world class infrastructure
- **v)** **For growth to be more inclusive we need:**

    a) Better performance in agriculture
    b) Faster creation of jobs, especially in manufacturing
    c) Stronger efforts at health, education and skill development

d) Improve effectiveness of programmes directly aimed at the poor
e) Special programmes for socially vulnerable groups
f) Special plans for disadvantaged/backward regions

Even State Government also set ambitious target in line with the above objectives by incorporating various assumptions set forth by Planning Commission. However, State Government, as placed under the category of Special States, has its own limitations and problems on the way to actual achievement of the target.

11. To remain within the fiscal framework prescribed by Thirteenth Finance Commission, the State Government's focus on fiscal management will concentrate on the following:

(a) Improving the quality of expenditure.

(b) Increasing capital investment in infrastructure sector.

(c) Increasing allocation of fund in socio-economic sectors.

(d) Improving Own Tax & Non-Tax Revenues and Own Tax-GSDP ratio.

(e) Continuing the process of fiscal reforms and consolidation in the forms of generating revenue surplus and reduce fiscal deficit.

12. Besides, the area of concern in which the State Government needs to review its existing policies and pay serious attention to redraw its present system of financial management over the medium term or long term may be highlighted as below.

(a) Diversion of Plan fund to meet Non-Plan liabilities becomes the areas of concern for State Government since this diversion prevents the State Government from enhancing capital investment in infrastructure sector and increasing allocation of fund for development of socio-economic sector. However, the amount of diverted Plan fund as indicated above is expected to decline from the current financial year since many plan posts have been identified for conversion to non-plan post.

(b) The increasing revenue expenditure needs to be addressed quickly and effectively since it will pose a threat to the State Government's capability to maintain revenue surplus and to build up the accumulated revenue surplus for financing the capital investment. In order to meet the yearly increments of revenue expenditure, the Government has to generate its own resources.

(c) The huge expenditure due to implementation of Mizoram (Revision of Pay) Rules, 2010 for the State Government's employees with its cascading effects on the pension payments will have to be absorbed in the expenditure. It will pose a serious threat to the fiscal position of the State over medium and long term framework.

(d) A major overhauling of Public Sector Enterprises is absolutely required to check unproductive spending from the State Exchequer. In reality, PSUs are expected to generate revenues for the State Government. Instead, they are now becoming liability and one of the outgo of fund from the State. However, PSE Restructuring Specialist was engaged to study the actual performance of these PSE and their significance to State finances. They have submitted their reports to Government and it is hoped that concrete and meaningful remedial measures are expected to evolve soon for these PSEs.

(e) The present trend of rising expenditure on account of purchase of electricity and food grains needs review immediately either in the form of generating additional requirement within our state or increasing the existing tariff rate of electricity and hiking the selling price of food grains. Due to this, State Government losses a huge amount of fund under Non-Plan which will pose a threat to the State finances in near future.

(f) Augmentation of tax and non-tax revenues is also an area of concern which the State government must not miss to address. One of the steps towards improvement of tax base is establishment of ISPAT industry at EPIP (Export Promotional Industrial Park), Lengte. As investment within and outside the State is partially absent, it is a must for the State Government to create conducive environment to attract private investors especially from outside the State.

13. Improvement of Tax-GSDP ratio will be the commitment of the State Government over the medium term as well as long term. In 2008-09, the Tax-GSDP ratio stood at **2.48**, in 2009-10, the same was stood at **1.96** and it was **2.15** during 2010-11, **2.58** during 2011-12 (RE). During 2012-13, it is expected to achieve the ratio of **2.37**. As a part of conscious effort to improve this ratio, State Government embarks on the following initiatives:

(i) Rate of Sales Tax has been increased by 2 per cent from the existing rate in respect of LPG, Motor Spirit (Petrol) and High Speed Diesel (HSD).

(ii) Taxation Department has been strengthened through the implementation of Mizoram Public Resource Management Programme under Structural Adjustment Loan from Asian Development Bank.

(iii) State Government also took a lot of initiatives in other areas like improvement of Non-Tax revenue, enhancement of user charges on water supply, reduction of spending on Non-Plan revenue expenditure etc. for improvement of the State finances.

14. It is the unrelenting endeavor of State Government to improve the quality of its expenditure for which number of measures have been introduced such as computerization of Treasury Offices, rationalization of contingent expenditure in most of Departments, institutionalization of Performance Budgeting, Medium Term Expenditure Framework (MTEF) in selected Department, Project Appraisal, Monitoring and Evaluation system. All these measures will be implemented over the medium term as well as long term. It is expected that these measures will have meaningful impact on the quality of public spending and Government expenditure.

15. The future borrowings of the Government must also be undertaken with care and due prudence. As of now, the borrowing policy of State Government is being carried out in accordance with the borrowing policy laid down in Mizoram Fiscal Responsibility and Budget Management (MFRBM) Act, 2006 along with instructions coming from Ministry of Finance, Government of India. This MFRBM Act requires State Government to limit its borrowings to the extent of deficit gap to be filled in its Budget excluding the impact of Debt financing. As per the prescription of MFRBM Act, 2006 coupled with Thirteenth Finance Commission report, the fiscal deficit should be reduced to 3 per cent of GSDP by 2014-15. Therefore, it must be the unrelenting commitment of the State Government to work hard to achieve this prescription and at the same time, to supplement the possible shortage of fund due to limited borrowings by working with multilateral institutions to mobilize any available resources.

16. As a part of our effort to gradually scale down the impact of Interest Payments in the State Budget, State Government has been arranging buy-back of high interest bearing loans from the Reserve Bank of India, Rural Electrification Corporation and Life Insurance Corporation through implementation of Mizoram Public Resource Management Programme under Structural Adjustment Loan availed from Asian Development Bank. This course of action is being driven with a view to reduce the stock of high cost debt of 9 per cent over the medium term. Out of the amount of **$ 46 million (₹ 222.25 crore)** which has been set aside for this project, **₹ 88.74 crore** and **₹ 127.96 crore** had been utilized for *prepayment of high cost loans* carrying an interest of 9 per cent and above from Reserve Bank

of India (RBI), Rural Electrification Corporations (REC) etc. In other words, an amount of ₹ **216.70 crore** has been utilized for prepaying high cost loans of above 9 per cent. In this connection, it may be mentioned that State government will ceaselessly prefer low cost loan like RIDF loan of NABARD for financing its developmental activities so as to avoid high Interest Payments.

17. State Government raised Consolidated Sinking Fund as redemption of debt raised from Open Market Borrowing and any other available resources. As on 31.3.2011, the amount collected in this Sinking Fund was worked out to be ₹ **90.75 crore.** During 2011-12, ₹ **21.75 crore** was allotted again so that the amount under this Fund at 31.3.2012 is worked out to be ₹ **112.50 crore.** However, the same Fund is being invested by Reserve Bank of India on behalf of Government of Mizoram and the same Fund is also earning interest. In the same manner, Guarantee Redemption Fund was set up on May, 2009 with initial corpus of ₹ **50.00 lakh** to manage the possible invocation of State's guarantee given to Departments or semi-autonomous bodies. During 2010-11, the corpus fund was augmented by investing additional fund of ₹ **50.00 lakh.** Similarly, during 2011-12, an amount of ₹ **100.00 lakh** was invested again. During 2012-13, it is tentatively proposed to augment the fund by ₹ **150.00 lakh.** As on 31.3.2012, the corpus fund is worked out to be ₹ **200.00 lakh** against the outstanding guarantees of ₹ **102.75 lakh** at the end of 2011-12.

18. Budget 2012-13 is being prepared with a view to consolidate and reform fiscal management of the State over the medium term. As provided by the Mizoram FRBM Rules, the assumptions underlying the projection of fiscal indicators are explained under:

A. ASSUMPTIONS UNDERLYING THE PROJECTIONS OF FISCAL INDICATORS

1. Revenue Receipts

Tax Revenue

18. The main sources of Tax Revenue in the state of Mizoram are Professional tax, Land revenue, Value Added tax, State excise, Vehicles tax and duties on Commodities & Services. Value Added Tax (VAT) was introduced in 1.4.2005 and since then, it brought about substantial improvements in tax collection. Rates of sales tax on petroleum products, which were reduced as a result of unprecedented inflation of oil prices in 2008, have been restored as before. Not only that, Taxation Department has also been restructured through implementation of Mizoram Public Resource Management Program so as to enhance its capability for

collecting more revenues and to generate more income. Besides, taxes on vehicles like Registration fee, Road Tax, Professional and Goods tax etc... have also been revised to considerable extent which was hitherto long overdue. Besides, target under Tax revenue for the year 2012-13 is set at **₹ 190.42 crore** which is 10 per cent increase over the Budget Estimates of the previous year. The estimate of Tax Revenue during 2012-13 is 2.37 per cent of the corresponding projected GSDP. Assuming 14.7 per cent annual growth rate, the projections for 2013-14 and 2014-15 are estimated at **₹ 218.41 crore** and **₹ 250.52 crore** respectively.

Non-Tax Revenue

19. It is an area of concern for the State Government to improve its Non-Tax revenue. Actually, any significant improvement of the State on Non-Tax revenue is neutralized by its surging non-plan expenditure. In spite of that, it is the continued endeavor of the Government to generate Non-Tax Revenue as much as possible in the current financial year as well as in the years to come. Besides, User charge on water tariff has also been increased. Rates of Power tariff are also expected to be increased during current financial year. Therefore, taking into account all these, Budget Estimates for State Own Non-Tax Revenue (SONTR) for current financial year 2012-13 is pegged at **₹ 229.43 crore** which is 2.86 per cent of the projected GSDP (**₹ 8018.96 crore** in 2012-13). Assuming 14.7 per cent annual growth rate, the forecasted SONTR for 2012-13 and 2013-14 are estimated at **₹ 263.16 crore** and **₹ 301.84 crore** respectively.

State's share of Central Taxes

20. It is one of the main sources of the State's Exchequer. During the current financial year 2012-13, Central Government allocated **₹ 813.71 crore** under Central pool of divisible taxes despite the country being deeply impacted by economic slowdown as a result of global fiscal turmoil and euro zone debt crisis. The Budget Estimates of 2012-13 is an increase of 14.65 per cent over and above the Budget Estimates of **₹ 709.73 crore** during 2011-12. Unfortunately, during last financial year, actual release of Share in Taxes was **₹ 688.26 crore** only against the Budget estimates which is 3.02 per cent shortfall. However, the shortfall is expected to be tided over during current financial year with the help of strong fundamental of the Indian economy. At the same time, projected annual average growth rate of Share of States in Central Taxes is assumed at 10 per cent in line with Thirteenth Finance Commission's assumption for State's growth rate. Keeping in mind this assumption, State's share of

Central Taxes for 2013-14 and 2014-15 are estimated at ₹ **895.08 crore** and ₹ **984.50 crore** respectively.

Grants from Central Government

21. Grants from Central Government mainly consist of Non-Plan Grants and Plan Grants. Non-Plan Grants comprises Revenue Deficit Grant, Central share of Calamity Relief Fund, Grants for Local Bodies and others. State share of these non-Plan Grants are usually worked out on the basis of Finance Commission's award. Budget Estimates of Grants from Central Government for 2012-13 is ₹ **3562.92 crore.** Besides, the current years estimate is also higher than the previous year estimate by ₹ **935.10 crore** in absolute terms which is 35.58 per cent increase. Following the projection rate of Thirteenth Finance Commission in GSDP growth rate i.e 10 per cent (approx…) the projection of Grants from Central Government for 2013-14 and 2014-15 are placed at ₹ **3919.22 crore** and ₹ **4311.14 crore** respectively.

22. Plan Grants coming from Central Government mainly consists of Normal Central Assistance, Special Plan Assistance, Additional Central Assistance etc…Normally, it is assumed that Normal Central Assistance is increased by 15 per cent, Additional Central Assistance by 10 per cent and other Plan Grants are usually kept at the level of the previous year. Keeping in mind this forecast, allocation of Normal Central Assistance for 2012-13 is estimated at ₹ **772.46 crore** (after deducting ASPA of ₹ **32.15 crore**), Special Plan Assistance/Special Central Assistance is put at ₹ **900.00 crore** and Additional Central Assistance at ₹ **487.46 crore.** Aggregating all these together, the Budget estimates of Plan Grants during 2012-13 is ₹ **2398.56 crore.** It may be reiterated that Central Government showered its blessings upon us this year by allocating more fund under Plan account which will enhance the fiscal space of the State for financing its capital investment. In line with the above assumptions, the projection of Plan Grants for 2013-14 and 2014-15 are estimated at ₹ **2638.42 crore** and ₹ **2902.26 crore** respectively.

23. Non-Plan Grants defrayed by Central Government mainly consists of Non-Plan Revenue Deficit Gap Grant, State Disaster Response and other Grants recommended by Thirteenth Finance Commission. The Budget Estimates of Non-Plan Grants for the year 2012-13 is placed at ₹ **1164.36 crore.** In line with the projected growth rate of Thirteenth Finance Commission, Non-Plan Grants for Mizoram is projected at the same rate

so that the same is placed at ₹ **1280.80 crore** and ₹ **1408.88 crore** respectively.

2. Capital Receipts

Borrowings

24. The borrowing policy has been framed under the guidance of Thirteenth Finance Commission report coupled with the State FRBM Act. As of now, Ministry of Finance, Government of India worked out the borrowing limit of the State as per the formula laid down in para 9.85 of Thirteenth Finance Commission report. In line with this prescription, the borrowing limit for 2012-13 stood at ₹ **383.00 crore** for 2012-13**.** Therefore, the net borrowings for 2013-14 and 2014-15 are forecasted based on the percentage of fiscal deficit as a GSDP determined by Thirteenth Finance Commission by estimating the amount at ₹ **377.23 crore** and ₹ **317.00 crore** for these consecutive two years. This borrowing limit comprises Borrowing on account of Internal Debt of the State Government, Loans & Advances from the Centre and Recovery of Loans and Advances as discussed below.

Loans and Advances from the Central Government

25. The Twelfth Finance Commission recommended disintermediation of the system of on-lending by the Centre to the States with the exception of Loans given by Ministry of Finance. This includes Block loan component of Externally Aided Projects. Thirteenth Finance Commission also recommended the same arrangement. Thus borrowings under Loans & Advances from Central Government for 2012-13 will be loan components of EAP which is estimated at ₹ **9.64 crore.** By maintaining the same size for the financial years 2013-14 and 2014-15, Loans and Advances from the Central Government is projected at ₹ **9.64 crore** for these two years.

Recoveries of Loans and Advances

26. Recovery of Loans and Advances mainly comes from repayment of Loans and Advances invested by the Government to its employees. Since this recovery could not follow a specific pattern, the estimated amount for 2012-13 is ₹ **26.55 crore** and the projected amount for the predicted years of 2013-14 and 2014-15 shall be of the same size at ₹ **26.55 crore.**

Public Account Borrowings

27. Borrowing from Public Account (net) is the net receipt under Provident Fund and Insurance & Pension Fund in the Public Account. It is being utilized to meet the resource gap on the Consolidated Fund and for making requirement of resources to finance the Annual Plan. It has to be maintained at optimum level so that the net borrowings under Public Account are not too much and serve only gap filling in the deficit financing. With that in aim, the net borrowing from Public Account for 2012-13 is estimated at **₹ 98.50 crore** and the same amount will be the projected amount for the forecast years of 2013-14 and 2014-15.

3. Total Expenditure

Revenue Account

28. The main components of Revenue Account are salary and its related items, contingent expenditure etc... Owing to implementation of The Mizoram (Revision of Pay Rules), 2010 in line with Sixth Pay Commission recommendation, the existence of a persistent inflation scenario in the market and provision of mass subsidy on power and food grains, the annual increased percentage of Revenue Account is assumed to be 10 per cent over and above the previous year. Therefore, the total revenue expenditure for 2012-13 is estimated at **₹ 4168.71 crore** against the Budget Estimates of **₹ 3426.26 crore** during 2011-12**.** Keeping the annual increment of 10 per cent, the total revenue expenditure for 2013-14 and 2014-15 are forecasted at **₹ 4585.58 crore** and **₹ 5044.14 crore** respectively.

Capital Account

29. State Government is expected to raise its capital expenditure by generating Revenue Surplus so as to augment investment on infrastructure development. As the amount of Revenue Surplus is always not sufficient to meet the requirement for capital expenditure, it is often required to resort to loans from other sources. Meanwhile, the Thirteenth Finance Commission recommended that the extent of borrowing limit has to be determined based on the extent of fiscal deficit of the corresponding year in the State account. In line with this recommendation, the Commission worked out the projected percentage of fiscal deficit as a percentage of GSDP covering the Commission's period. These factors tightened the fiscal maneuverability of the State Government to

considerable extent. Therefore, the expenditure on Capital Account is anticipated, besides the above, on the basis of two factors – first, the total amount of devolution of Non-Plan Grants as per FC-XIII recommendations and second, Revenue surplus, as stated above, that the State Government can raise in its own. Based on the devolution of resources recommended by FC-XIII, the capital expenditure for 2012-13 is estimated at **₹ 1007.54 crore** and for 2013-14 and 2014-15, it is projected at **₹ 1108.29 crore** and **₹ 1219.12 crore** respectively.

C. ASSESSMENT OF SUSTAINABILITY RELATING TO

(a) The balance between revenue receipts and revenue expenditure

30. The fortunate incident in the management of State finance is the continued existence of Revenue Surplus in the Budget since the financial year 2003-04. The incident may be ascribed to considerable increments of Non-Plan Grants from Central Governments. In the meantime, it is the unrelenting efforts of the State government to augment its own resources to improve its imbalance account. For this, user charges on water tariff have been hiked, rate of various taxes in Land Revenue & Settlement Department have also been increased. Besides, State's share in Central Taxes and various Grants coming from Central Government has also been anticipated to augment noticeably. In spite of various subventions coming from Central Government being enlarged to a certain extent; its optimistic corresponding affect in the state finance is always neutralized by the audacious bulging revenue expenditure as a result of implementation of Pay Revision with its cascading affect. In spite of all these, it is anticipated that revenue surplus would be maintained during current financial year at **₹ 627.77 crore.** For 2013-14 and 2014-15, the Revenue Surplus is projected at **₹ 710.21 crore** and **₹ 803.86 crore** respectively. It is expected to continue this improvement trend over the medium as well as long term so that the Government can have Revenue Surplus for financing capital investment.

(b) The use of capital receipts including borrowings for generating productive assets

31. It is one of the main endeavors of State Government to augment fund flow for creating durable and productive assets. However, due to its own limitations and problems, the performance of State Government in this perspective is, sometimes, below at par. In particular, the fiscal account of

Mizoram before 2003-04 used to experience revenue deficit which further required the capital receipts for meeting revenue expenditure. As a result of Government's incessant effort, Revenue deficit continued to disappear in the fiscal account of the State since 2003-04 thereby resulting into injection of Revenue surplus for taking up of developmental works. Since then, Revenue surplus has been maintained in the Budget till date. The State Government had never utilized capital receipts (borrowed funds) for meeting its revenue expenditure since the attainment of revenue surplus from 2003-04. This helps increase the capital expenditure.

(c) Estimated yearly pension liabilities worked out on actuarial basis for the next ten years

32. New Defined Contributory Pension Scheme has been put in place for the Government employees who are recruited on or after 1st September, 2010. Besides, Voluntary Retirement Scheme was also introduced under the supervision of School Education Department as Program Implementation Unit (PIU). In this regard, it may be mentioned that an amount to the tune of **$ 3 million (₹ 14.16 crore)** has been utilized for implementation of the abovementioned Voluntary Retirement Scheme and for undertaking exhaustive estimation of pension liabilities including development of a complete database. This implementation is carried out through the implementation of Asian Development Bank assisted Mizoram Public Resource Management Programme. Hence, after development of complete database on pension, estimation of expenditure on pension payment shall be carried out on actuarial basis. However, the present estimation is carried out on the basis of trend growth rate.

33. There was a sudden increase on pension expenditure in 2009-10, 2010-11 and 2011-12. The reason could be ascribed to non-coverage of major portion of Government employees by this New Defined Contributory Pension Scheme and implementation of The Mizoram (Revision of Pay) Rules, 2010 to State Government's employees during 2010-11. In order to take care of all these development on pension, the trend growth rate (TGR) for estimation of pension payment is fixed at 15.61 per cent. Fortunately, the story is different for the current financial year owing to incessant effort paid by the State Government thorough implementation of Mizoram Public Resource Management Programme. As such, pension payments for 2012-13 is estimated at **₹ 268.72 crore** against the Budget Estimates of **₹ 272.89 crore** during 2011-12 which is a decrease of 1.53 percentage. Nevertheless, projections for pension payments for the next ten years are being worked out based on the TGR of 15.61 per cent as shown below:

2013-14	-	₹ 310.67	crore
2014-15	-	₹ 359.17	crore
2015-16	-	₹ 415.24	crore
2016-17	-	₹ 480.06	crore
2017-18	-	₹ 555.00	crore
2018-19	-	₹ 641.64	crore
2019-20	-	₹ 741.80	crore
2020-21	-	₹ 857.60	crore
2021-22	-	₹ 991.47	crore
2022-23	-	₹ 1146.24	crore

34. Data on receipts and expenditure in the State's finance over the medium term framework covering the period 2010-11 to 2014-15 is shown in the table appended herewith.

TABLE

(Rs. in crore)

Sl. No.	Item of Receipt / Expenditure	2010-11 (Actuals)	2011-12 (Budget Estimates)	2011-12 (Revised Estimates)	2012-13 (Budget Estimates)	Targets for next Two Years	
						2013-14 (Proj)	2014-15 (Proj)
1	**Revenue Receipts**	**3374.71**	**3748.30**	**4127.72**	**4796.48**	**5295.79**	**5848.00**
	(a) Tax-Revenue	*130.08*	*173.17*	*180.31*	*190.42*	218.41	250.52
	(b) Non-Tax Revenue	*146.71*	*237.58*	*241.18*	*229.43*	263.16	301.84
	(c) State's share of Central Taxes	*590.78*	*709.73*	*709.73*	*813.71*	*895.00*	*984.50*
	(d) Grants from Central Government	*2507.14*	*2627.82*	*2996.50*	*3562.92*	*3919.22*	*4311.14*
	(i) Non-Plan Grants	819.06	1701.90	927.39	1164.36	1280.80	1408.88
	(ii) Plan Grants	1688.08	925.92	2069.11	2398.56	2638.42	2902.26
2	**Capital Receipts -**	**830.58**	**573.39**	**572.42**	**481.94**	**475.73**	**415.50**
	(a) Borrowings on account of Internal Debt of the State Government (of which W&MA)	*510.28* *(163.36)*	*433.60*	*432.63*	*347.25*	*341.04*	*280.81*
	(b) Loans and advances from the Centre	*3.25*	*23.03*	*23.03*	*9.64*	*9.64*	*9.64*
	(c) Recovery of loans and advances	*25.97*	*36.76*	*36.76*	*26.55*	*26.55*	*26.55*
	(d) Borrowings from Public Account (Net)	*291.08*	*80.00*	*80.00*	*98.50*	*98.50*	*98.50*
3	**Total Expenditure**	**4157.44**	**4216.09**	**4998.05**	**5176.25**	**5693.88**	**6263.26**
	(a) Revenue Account	*3255.03*	*3426.26*	*3934.06*	*4168.71*	*4585.58*	*5044.14*
	(i) Interest Payments	105.58	271.24	271.70	241.99	266.19	292.81
	(ii) Salaries	1395.56	1458.28	1544.29	1772.24	1949.46	2144.41
	(iii) Pensions	249.54	272.89	272.89	268.72	295.59	325.15
	(iv) Others	1504.35	1423.85	1845.18	1885.76	2074.34	2281.77
	(b) Capital Account	*902.41*	*789.83*	*1063.99*	*1007.54*	*1108.29*	*1219.12*
	(i) Public Debt-Repayment of borrowings (of which W&MA)	257.16 (163.36)	258.17 (0.02)	342.71 (52.15)	87.60 (0.02)	96.36	106.00
	(ii) Loans and advances	29.87	34.71	35.06	31.20	34.71	34.71
	(iii) Capital Outlay	615.38	496.95	686.22	888.74	977.61	1075.38
	(iv) Appropriation to Contingency Fund						
4	**GSDP**	**6057.70**	**6991.40**	**6991.40**	**8018.96**	**9200.71**	**10560.27**
5	**Outstanding liabilities of the State Government**	**3697.24**	**3975.73**	**3994.48**	**4362.31**	**4580.43**	**4809.45**