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GOVERNMENT OF MIZORAM

FISCAL POLICY STRATEGY 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 –II (a)
(See Rule 4)

FISCAL POLICY STRATEGY STATEMENT

A. FISCAL POLICY OVERVIEW:

1. The fiscal policy of the State mainly depends on the economic policy and strategy of Central Government. As enshrined in the Constitution, the fiscal federalism of the country is upheld and maintained through the institution of Finance Commission with a mandate to give recommendations on specified aspects of Centre State fiscal relations covering a period of five years. Therefore, the State Government is compelled to follow the guidelines and principles recommended by such Commissions in formulation of its fiscal policy. Based on the report of Finance Commission, fiscal policy overview of the State will be undertaken with a view to highlight the efforts paid by the State for consolidation of its fiscal position. As the main resources of the State like Mizoram are various grants and subvention devolved by Central Government, the fiscal policy overview of Central Government may be highlighted in brief to have a better view on the State fiscal policy.

2. The Fiscal Responsibility and Budget Management (FRBM) Act was implemented for reformations and fiscal consolidation of sovereign fiscal management as well as State fiscal policy as per recommendation of Twelfth Finance Commission (2005-2010). Later Thirteenth Finance Commission also recommended the continuance of the same Act with few more recommendations entailing tighter fiscal belt on the Centre and States. The implementation of this recommendation brought about a major turnaround in the fiscal management of the Implementing states and Central Government which manifested in the better results in some fiscal indicators like Revenue Deficit/Surplus, Fiscal deficit, Outstanding debt etc.

3. Indian economy in the last couple of years passed through ups and downs. During 2008-09 and 2009-10, the global economic slowdown especially in the performance of emerging market economies negatively impacted sovereign economic position. Besides, the persisting financial crisis in Euro Zone coupled with exogenous shocks like increase in the international crude prices brought out the volatility of Indian economy to the forefront in the international economics. The resilience of sovereign economy in 2010-11 which marked a growth of 8.4 per cent is steering through a difficult international scenario and then, the growth rate of economy was brought down to 6.9 per cent in 2011-12. In spite of all these,

the growth rate of 2012-13 is forecasted to be 7.6 per cent which is actually lower than the potential growth rate.

4. The year 2011-12 experienced fiscal slippage in many indicators owing to provision of mass subsidy on food, fertilizer and oil. Subsidy on these three items alone accounts for slippage of 1.1 per cent of GDP in fiscal deficit during 2011-12. Moreover, fiscal slippage during this year was aggravated due to US debt crisis and prevailing uncertainty in Euro Zone which added vulnerabilty to the Indian capital market. However, with savings in other expenditure and better than estimated receipts from Service tax, fiscal deficit is estimated to increase by 1.3 per cent of GDP to 5.9 per cent of GDP in RE 2011-12. At the same time, Revenue Deficit is estimated to increase by 1 per cent of GDP from the earlier estimated level of 3.4 per cent of GDP in BE 2011-12 to 4.4 per cent of GDP in RE 2011-12.

5. As envisaged in Thirteenth Finance Commission report, Central Government is required to eliminate Revenue deficit by 2014-15. However, the present trend of revenue deficit goes in the opposite direction. As a part of an effort to streamline the main components which forms revenue deficit in the fiscal position of the country, Central Government felt a need to introduce the concept of *effective revenue deficit* in the FRBM Act. This is defined as the difference between revenue deficit and grants for creation of capital assets. *Effective revenue deficit* reflects the structural component of imbalance in the revenue account. In general, large amount of transfer of resources from Central Government to the States are booked under Central Government account as revenue/current expenditure. However, significant portion of such transfers is specifically meant for creation of capital assets which are public goods in nature. But, these assets are created and constructed through State Government and therefore, ownerships are also conferred to them. Since the Central Government does not own these assets, the resources transferred for creation of physical infrastructures are shown as revenue expenditure. However, it is felt a need to revise this concept as the definition of revenue expenditure does not imply those expenditure used for creation of durable assets. Hence, an initiative has been taken from current financial year to incorporate concept of *effective revenue deficit* in the FRBM Act so as to demonstrate the ground realities of Central Government expenditure in the Budget.

6. In the meantime, Central Government is determined to bring the deficit down to a more sustainable level and at the same time re-orient government expenditure towards priority sectors like health, education, irrigation with added focus on infrastructure and investment related expenditure. Besides, the government has made efforts to kick start the growth revival without losing sight of fiscal consolidation. However, as the growth scenario for the world economy is still uncertain and problems of high crude prices have further aggravated due to geo-political situation in some of the oil producing countries, the fiscal outlook for the current

financial year and the ensuing year is still looking grim and sulky despite an utmost effort being rendered by the Government for its revival.

7. Meanwhile, State Government also formulates its fiscal policy and guiding principle in line with the roadmap for fiscal consolidation devised by Thirteenth Finance Commission. Besides, it has enacted its own version of the Twelfth Finance Commission's recommendation of Fiscal Responsibility and Budget Management Act as a part of an effort to reform and to consolidate the State fiscal management. Many significant achievement of State finance nowadays in respect of fiscal indicators like Revenue Deficit/ Surplus, Fiscal Deficit etc. could be ascribed to this enactment. In particular, the debt relief in the form of debt consolidation and debt write-off availed by the State Government was one of the conspicuous consequences for complying Twelfth Finance Commission's recommendation. As a result of the consolidation of Block Loan which is one of the debt relief measures, the State Government has got an advantage by reducing interest on those loans during the years 2008-09, 2009-10 and 2010-11.

8. However, the network coverage of Twelfth Finance Commission's report on the issue of debt relief did not take in all aspects of Central loans given to State Government such as Centrally Sponsored Schemes/Central Plan Scheme routing through various Ministries other than Ministry of Finance. This untouched portion of Central Loans was studied further by Thirteenth Finance Commission and hence recommended to discontinue. In addition to disintermediation of these Central Loans, Thirteenth Finance Commission also recommended write-off on the outstanding balance on a condition that the State has to comply and materialize revised roadmap for fiscal consolidation to avail the benefit offered. Government of Mizoram has already enacted its own FRBM Act in the year 2006 with necessary relevant amendment every year incorporating the pre-conditions set by Thirteenth Finance Commission to become eligible so as to take advantage of this recommendation.

9. As envisaged in the para 9. 85 in Vol I of Thirteenth Finance Commission Report, the Commission prescribed the following debt relief measures to the State Government on the condition of FRBM compliance:

(a) *Interest rate on all NSSF loans to the States contracted till 2006-07 and outstanding at the end of 2009-10 shall be reset at 9 per cent of interest. In future, NSSF Scheme shall be formed into a market aligned scheme.*

(b) *Loans from Government of India to the State Governments and administered by the Ministries/Departments other than Ministry of Finance, outstanding at the end of 2009-10 shall be written off. Any future lending from the Centre to the States under any CSS shall be discontinued.*

Owing to this recommendation, the State Government is expected to avail debt relief on Central Loans under Central Plan Scheme (CPS) and Centrally Sponsored Scheme (CSS) advanced to State Governments by the Ministries other than Ministry of Finance from the current financial year as follows:

Sl.No	Name of Ministries	Amount to be written off
1	Consumer Affairs	₹ 89,28,000
2	Environment & Forest	₹ 91,000
3	Industry	₹ 6,07,000
4	Road Transport & Highways	₹ 3,04,13,000
5	Power	₹ 64,75,000
6	Urban Development	₹ 15,50,000
7	Agriculture	₹ 23,08,16,000
	Total	**₹ 27,88,80,000**

Besides, interest on National Small Savings Fund (NSSF) would be reset retrospectively with effect from 12th August, 2011 as per recommendation of FC-XIII as indicated above. However, it may be relevant to mention that the State Government has to meet the benchmark prescribed by Thirteenth Finance Commission in respect of consolidation of fiscal situation in the State so as to avail this debt relief. It must be the continued endeavor of the State Government to cautiously and sincerely draw its fiscal policy to remain within the bounds of this fiscal framework with an aim at availing this debt relief.

10. As shown in Annexure 9.5 of Thirteenth Finance Commission report Vol-II, the total amount of Central Loans administered by Ministries other than Ministry of Finance at the end of 2007-08 for the state of Mizoram was pegged at **₹ 75.00 crore.** As indicated above, the state should implement and put into practice recommendations and provisions laid down by Thirteenth Finance Commission. This debt write-off will be of immense significance in improvement of State finances.

11. Before going further to have a holistic view on fiscal policy in Mizoram, a concise highlight of Tax and Non-Tax administration may be briefly delineated. It may further be underscored that generation of own resources is one of the need of the hour to improve and cure the fiscal imbalances which is currently enveloping the State finances.

12. The State's own tax collection received an impetus since 1st April, 2005 with an implementation of VAT throughout the State. As the State is endowed with small tax base and limited resources coupled with absence of investment from private players, tax opportunity possessed by the State is very inadequate and restricted. Public investment undertaken by the Government is producing negative result which, sometimes, causes a loss

to the State Exchequer. Hence, more attention is necessary to pay in the way how the Public investment is embarked on especially through Public Sector Undertakings. However, PSE (Public Sector Enterprises) Restructuring Specialist has been engaged to look into the merit and demerit prospects of these Undertakings. They have submitted their reports to the Government and it is hoped that a concrete action would be taken in accordance with this report.

13. Thirteenth Finance Commission projected the Tax-GSDP ratio for Mizoram State, in its report Vol –II at Annexe- 7.3, to be 2.89, 2.95, 3.01, 3.07 and 3.13 for the year 2010-11, 2011-12, 2012-13, 2013-14 and 2014-15 respectively. As per the Actual report of 2010-11, Tax-GSDP ratio is 2.15 which is less than the projected figure. In spite of actual figure not being published, Tax-GSDP figure for the year 2011-12 (RE) stood at 2.58. As of now, the budget estimate of Tax revenue for the year 2012-13 is **₹ 190.42 crore** against the GSDP of **₹ 8018.96 crore.** In terms of Tax-GSDP ratio, the ratio of this figure is 2.37 which is again short of the Thirteenth Finance Commission's projection. As it has been highlighted above, the year 2011-12 witnessed economic slowdown as a whole country resulting to lower devolution of tax to State Government. Owing to this fiscal turmoil, the shortfall in the State's share of Central taxes amounted to **₹ 21.47 crore** and the shortfall in the devolution of Normal Central Assistance accumulated to **₹ 14.28 crore.** These unwarranted incidents led the State finances to under-achievement of various target set by Thirteenth Finance Commission in spite of an effort for fiscal consolidation. Besides this factor, the performance of some Departments of State Government also fell short of the expectation despite commendable performance of Taxation and Transport Department during 2011-12. Both Departments exceeded their target by achieving more than 100 per cent. Achievement of these two Departments is a remarkable figure - 96.55 per cent of the whole State's achievement on Tax revenue. The Budget Estimates of Share in Taxes for the year 2012-13 is put at **₹ 813.71 crore** which is 14.65 per cent increase against the Budget Estimates of last year.

14. Grants-in-aid coming from Central Government is one of the main determinants of State fiscal position. Grants-in-aid are differentiated as Non-Plan Grant and Plan Grant. Non-Plan Grants mainly comprise Non-Plan Revenue Deficit Grant, State' Specific needs, State Disaster Fund, Maintenance of Roads & Bridges and Grants for Local Bodies. Most of the Non-Plan Grants are devolved to State Government based on the recommendations of Thirteenth Finance Commission. The expected estimate amount for the current financial year under Non-Plan Grant is **₹ 1161.76 crore.** During 2011-12, the Budget Estimates was **₹ 925.92 crore** and it was **₹ 819.06 crore** during 2010-11. The increasing percentage of Non-Plan Grants from the previous year to successive year for the last three years is considerably remarkable. For the current financial year, the State Annual Plan size was fixed at **₹ 2300.00 crore** which is an increase of 35.29 per cent. The blessing showered by Central

Government on the State Government for taking off plan commitment and developmental work is enormous and massive. It is believed that these Grants coming from Central Government is going to bring about a major turnaround in the fiscal position as well economic prospects of the State. However, it may not be out of place to mention the inability of State Government in provision of State's share against these Plan Grants. Being a Special Category State, it enjoys a funding pattern in a blend of 90:10 in any Plan Grants. As the State has a resource-crunch, sometimes, it finds it difficult to meet even 10 per cent of the total cost due to which the whole 90 per cent of Central Grants could not be availed. It is one of the fiscal hiccups of State Government in the management of its finance. However, a certain amount of fund was set aside as Special Central Assistance (untied) in the State Annual Plan for the current financial year for meeting *state matching share*. Hence, it is hoped that this persisting problem in the State finance would be tided over from this financial year.

15. Non-Tax revenue collection is another area of concern in the management of State finances. Non-Tax Revenue of the State comprises Own Non-Tax and Grants-in-aid from Central Government. As the trend growth rate of Grants-in-aid in the last couple of years has been discussed in the above paragraph, own non-tax revenue only will be discussed in this para. Own non-tax revenues of the State consists of receipt from interest on loans by the State Government, royalty from minerals, forestry and wildlife, User charges from irrigation, power, transport and other services. Unfortunately, the Own Non-Tax revenue's figure in the State Annual Plan is always minus on account of the negative achievement of Power, Irrigation & Transport Department. Negative achievement means the recovery from User charges of the service rendered by these Departments do not cover the maintenance cost /non-Plan expenditure of that Department. It is, therefore, absolutely required to overhaul non-tax administration throughout the State. Nonetheless, the performance of the State in the last few years may be presented to have a bird's eye view on the Non-Tax administration of the State. During 2010-11, the collection of own Non-Tax revenues stood at **₹ 146.71 crore.** During 2011-12, Revised estimate figure of the same was put at **₹ 241.18 crore** and the Budget Estimates of the same for the year 2012-13 was pegged at **₹ 229.43 crore.** The performance of various Departments during 2011-12 shows that many Departments have lots of room for improvement and they need to put in extra efforts to achieve the target. Under Interest receipts alone, performance of many Departments needs recharge and refurbishment despite the same not being considered to require much effort.

16. The necessity of revamping and patching up of Non-Tax administration within the State may be testified further by illustrating the improper collection of Agency charges and reprehensible non-reimbursement of expenditure on execution of National Highway within a State by State's Public Works Department (PWD). Construction as well as maintenance of National Highway in the state of Mizoram is executed by

PWD of the State on behalf of Ministry of Shipping & Road Transport, Govt. of India. In actual implementation of work, the initial payment has been made by the State Government (PWD) from the State Government Cash balance and the same were incorporated in their Monthly Accounts and the claims for reimbursement including Agency Charges are submitted to Regional Pay and Account Officer (RPAO) through Accountant General. Such expenditure for reimbursement from Ministry of Surface, Road & Transport are mainly incurred on account of Ordinary Repair (OR) and Flood Damage Repair (FDR) only and are being booked under Revenue expenditure (3054). Under normal circumstances, all these payments should be reimbursed from Government of India and then, should be credited to State Government account. Unfortunately, the same was not properly carried out. Special Audit's report showed that un- reimbursed expenditure on account of execution of National Highway by State's PWD as on 31.3.2011 accumulated to **₹ 40.85 crore.** Further, being an agency of Central Government, State Government can claim Agency charges to the extent of 9 per cent of the total work estimated cost. However, the available report in the offices of State PWD reveals that the percentage of Agency charges received from Ministry of Road Transport is only 3.6 out of the total net payment of **₹ 49.48 crore.** Arithmetically, the amount of claimable Agency charges is **₹ 4.45 crore,** out of which only **₹ 1.78 crore** was claimed. The total loss as a result of improper reimbursement and improper claim of Agency charges amounted to **₹ 27.32 crore.** The above statement may be evidenced by the following statement:

i)	Total cash drawn from State Cash Balance	= ₹ 49,47,99,527.00
ii)	Reimbursement made by RPAO	= ₹ 8,63,39,195.00
iii)	**Unreimbursed amount from Indirect Payment**	**= ₹ 40,84,60,332.00**
iv)	Agency Charge from Direct Payment	= ₹ 13,52,88,931.00
v)	**Net Shortage of State Fund as on 31.3.2011**	**= ₹ 27,31,71,401.00**

This loss is very heavy for a small state like Mizoram. However, the State Government views the matter seriously and pursues the recommendation of Special Audit Team vigorously for its corrective measures. It is hoped that the irregularities and procedural lapses in execution of National Highway would be wiped out from the current financial year.

17. While refurbishing of Non-Tax administration is talked about, the inevitability of revamping the collection of User charges in respect of Power and Water tariff may not be missed out from the topic. To ensure balances in this State Exchequer, the rate of user charges on Power and supply of water need update in a certain period of interval. It is universally true that the customer/consumer does not accept a steep hike of user charges in any item at one go. Therefore, Department should be alert and take appropriate action regarding revision of such user charges in a proper periodical manner at comfortable increased rate. The recent effort of State Government in this regard is really appreciable and laudable. However, it will take time to witness the fruitful result in the State finance as the

improvement of the system within the Government is always over medium as well as long term.

18. The trend of expenditure side of the State may also be looked into as it is also the main determinant of State fiscal situation. One of the unfortunate features of State's Government expenditure is the existence of negative Balance from Current Revenue every year. In other words, the Non-Plan Revenue Receipts is always falling short of Non-Plan Revenue Expenditure. This could be attributed to two factors: Firstly, Implementation of Pay Revision in line with 6th Pay Commission recommendation. As the Thirteenth Finance Commission did not recommend any specific grant for this purpose, the State Government needs a medium term to tide over the after-shock and hence, the problem still persists in the fiscal position of the State. Secondly, the same could be ascribed to normative assessment of Thirteenth Finance Commission on State's requirement of Non-Plan Revenue expenditure which was far below the actual requirement. It may be seen from the table below:

Comparison of Non-Plan Revenue Expenditure

(Figures in crore of rupees)

Year	2010-11	2011-12	2012-13	2013-14	2014-15	Total
1. State Own Assessment submitted to XIII-FC	2229.05	2485.92	2607.69	2799.47	2994.72	13116.85
2. XIII-FC Award	1463.27	1564.20	2002.55	2144.83	2268.04	9442.89
3. Difference between 1 and 2	-765.78	-921.72	-605.14	-654.64	-726.68	-3673.96

As may be seen from the above table, the shortfall is quite substantial to the order of **₹ 3674 crore** and it is practically impossible for the State Government to manage the expenditure due to smallness of the tax base. Even though Thirteenth Finance Commission recommended Non-Plan Revenue Deficit Gap Grant for filling the gap between Non-Plan Revenue Receipt and Non-Plan Revenue Expenditure, the gap still lying remain unfilled due to mismatch assessment of the Commission. This problem is compounded by the above-mentioned implementation of Pay Revision resulting to persisting existence of negative Balance from Current Revenue in the State Annual Plan.

19. The growth rate of total expenditure of the State also has a significant impact on the State finances. During 2010-11, the total expenditure which comprises Revenue and Capital expenditure stood at **₹ 4296.49 crore.** Meanwhile, the same went up to **₹ 5149.31 crore** during 2011-12 (RE). The increasing percentage is 19.85. However, the total expenditure was estimated in the Budget 2012-13 at **₹ 5327.27 crore.** It is not known whether the State will be able to sustain the estimate amount in the current financial year. Nonetheless, it would be the untiring effort of the

State Government to check and put under control the burgeoning expenditure especially revenue expenditure.

20. On the aspect of Revenue expenditure, one of the fortunate features of the State finances is the continued existence of Revenue Surplus since 2003-04. It means Revenue Receipt surpasses the Revenue Expenditure which indirectly implies that the Government has a surplus fund to finance capital investment for creation of durable and productive assets. This is a positive sign of improvement in the management of the State finances. Meanwhile, another task lying ahead for the State is improving the position of its fiscal deficit. As the Revenue surplus alone does not meet the amount of fund required for taking up developmental works and creation of productive assets, the State needs to mobilize additional fund from available sources. The State's endeavor in this regard may be discussed in detail later with particular reference to Thirteenth Finance Commission's report.

21. In respect of Capital expenditure, the ascending growth rate of Capital Outlay is one of the optimistic features of the State Budget. During 2010-11, the net Capital Outlay stood at **₹ 615.38 crore** and during 2011-12 (RE), the same was placed at **₹ 686.22 crore.** However, the net Capital Outlay during 2012-13 is estimated to increase to **₹ 888.74 crore** as a result of increased inflow of many Central Plan Scheme fund. Meanwhile, it may not be out of place to mention that the borrowing limit has been fixed by Ministry of Finance, Government of India in line with the recommendation of Thirteenth Finance Commission owing to which the State has no free hand in the avail of borrowing. However, this has helped the State Government in reducing the outstanding liabilities as well as the amount of interest payments.

B. <u>FISCAL POLICY FOR 2012-13:</u>

22. The fiscal policy for the current financial year shall be, first of all, in line with the Thirteenth Finance Commission recommendation. Hence, the salient features of the fiscal reforms introduced by Thirteenth Finance Commission may be highlighted once again despite already delineated in this Statement last year.

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

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

(c) *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.*

(d) *Debt stock/ outstanding liabilities of the Central and State Governments should be brought down to 68 per cent of GSDP by the end of the award period (2014-15). In other words, State Government needs to ensure total outstanding debt, excluding Public Account and Risk weighted 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*

23. The current fiscal position of the State in respect of various fiscal indicators may be briefly looked into from the point of view of the fiscal reform features indicated above. Regarding elimination of revenue deficit, the noteworthy achievement of the State is the continued maintenance of revenue surplus since 2003-04 in the State Budget in spite of the target for Mizoram State being the financial year 2014-15 as mentioned before. The Revenue surplus during 2010-11, 2011-12(RE) and 2012-13(BE) are **₹ 119.68 crore, ₹ 193.66 crore** and **₹ 627.77 crore** respectively. As it has been mentioned, the amount of Revenue Surplus has to be increased at the highest possible level so as to set aside maximum fund for taking up of developmental works and for creation of productive assets. As of now, the main bottlenecks on the way to enhancement of revenue surplus is the burgeoning Non-Plan Revenue expenditure which has existed in the State finances due to implementation of The Mizoram (Revision of Pay) Rules, 2010 and the provision of mass subsidy on the purchase of power and food grains. However, utmost endeavors are being undertaken by the State Government to weed out this persisting financial necessary evil in a systematic and fruitful manner.

24. The Thirteenth Finance Commission required Government of Mizoram to reduce its fiscal deficit to 3 per cent of GSDP by 2014-15 as indicated above in paragraph 22. In spite of the borrowing being fixed in line with the recommendation of Thirteenth Finance Commission, the bulging Revenue expenditure always neutralized the efforts rendered for reduction of fiscal deficit volume. Thirteenth Finance Commission recommended that Government of Mizoram should maintain fiscal deficit as a percentage of GSDP in the following pattern: 7.5 per cent in 2010-11, 6.4 per cent in 2011-12, 5.2 per cent in 2012-13, 4.1 per cent in 2013-14 and 3 per cent in 2014-15. As per the pre-actual account in 2010-11, the fiscal deficit was placed at **₹ 499.60 crore** which is 8.25 per cent of the GSDP- **₹ 6058.00 crore.** It is slightly higher than the Thirteenth Finance Commission's (FC-XIII) recommendation. In the year of 2011-12 (RE), the fiscal deficit was placed at **₹ 490.86 crore** which is 7.02 per cent of the GSDP - **₹ 6991.40 crore** which was higher than the FC-XIII's recommendation. For the current financial year, the Gross Fiscal Deficit is estimated to be **₹ 265.62 crore** which is 3.31 per cent of projected GSDP of **₹ 8018.96 crore** which is well confined within the target set by FC-XIII.

25. The State Government has enacted its own version of Fiscal Responsibility and Budget Management Act (FRBMA) as a part of an effort to comply with the recommendation of FC-XIII in 2006 by publishing Notification to this effect on 3rd November, 2006. Later, relevant amendment was made to cope with the latest instruction coming from Ministry of Finance, Government of India on this issue. Owing to such efforts of the State Government, it faces no problem in drawing out State Specific grants recommended for a State by Thirteenth Finance Commission.

26. One of the important indicators of State's own efforts for consolidation of its fiscal position is checking and maintaining the outstanding debt stock of the State at a comfortable level and reducing the corresponding interest payments. As per the revised roadmap for fiscal consolidation, the targeted reduction of the debt stock as a percentage to GSDP for the year 2012-13 stood at 82.9 per cent. Meanwhile as per the State own assessment, the outstanding debt at the end of 2012-13 will be **₹ 4362.31 crore** which is 54.4 per cent of the GSDP of **₹ 8018.96 crore.** In view of the target set by FC-XIII, the present position of the State is comfortable and satisfactory. In spite of that, it the ceaseless endeavor of the State to cautiously draw up its debt policy and to reduce the debt stock as low as possible so as to correspondingly minimize the amount of interest payments.

27. The fiscal policy of the State should be framed in line with the broad fiscal framework designed by FC-XIII. The FC-XIII said that, "*a state should have adequate room for capital expenditure by using its revenue surplus and a fiscal deficit not exceeding 3 per cent of GSDP. Any State that has a revenue surplus along with higher fiscal deficit should compress its capital expenditure, or alternatively, increase its surplus on the revenue account*". Following these recommendations, the fiscal policy of the State Government for 2012-13 shall be:

- *(a) To continue the process of fiscal reforms and consolidation; generate revenue surplus and reduce fiscal deficit.*
- *(b) To improve Own Tax Revenues and improve Own Tax-GSDP ratio*
- *(c) To ensure commercial viability of Departmental undertakings in critical sectors such as power and transport, and also in public sector units.*
- *(d) To improve the quality of expenditure*
- *(e) To increase allocation of fund in socio-economic sectors*
- *(f) To increase capital investment in infrastructure sector*
- *(g) To contain outstanding liabilities excluding Public Account and risk weighed Guarantee Fund in a year not to exceed twice of the*

estimated receipt in the Consolidated Fund of the State at the close of financial year.

It is apparent that the ready option available to us so as to fulfill the above fiscal policy is to achieve not only balance revenue account but also revenue surplus for capital investment.

28. The fiscal policy of Mizoram, as highlighted before, certainly depends on the amount of resources transferred from Central Government. Despite the normative assessment of Thirteenth Finance Commission on the requirement of Non-Plan Revenue expenditure being far below the actual requirement of the State, the overall devolution of Grant as per recommendation of Thirteenth Finance Commission is a handsome amount compared to total devolution recommended by Twelfth Finance Commission. By and large, the increase percentage of total devolution compared to devolution by FC-XII is 88.92 which is very gratifying for the State.

29. Improving Own Tax and Non-Tax revenue has become a centre-stage of the State's fiscal policy nowadays. Actually, the performance of the State in respect of Tax collection is more or less better than the projections of Thirteenth Finance Commission. As per Annexure 7.7 in its Report Vol-II, the projected Own Tax Revenue for Mizoram State for the year 2010-11, 2011-12 and 2012-13 are **₹ 133.35 crore, ₹ 149.81 crore** and **₹ 168.66 crore** respectively. At the same time, the actual achievement of the State for the year 2010-11(actual), 2011-12 (RE) and 2012-13(BE) are **₹ 130.08 crore, ₹ 180.31 crore** and **₹ 190.42 crore** respectively. This performance bears witness to satisfactory performance of the State in Tax Revenue collection. Besides, implementation of VAT across the State also added an impetus to State's Own revenue collection. In Non-Tax revenue side, the projection of Thirteenth Finance Commission on collection of Own Non-Tax for the year 2010-11, 2011-12 and 2012-2013 are **₹ 66.82 crore, ₹ 87.56 crore** and **₹ 167.10 crore** respectively. Meanwhile, the performance of the State against these projections for the year 2010-11, 2011-12 (RE) and 2012-2013 (BE) are **₹ 146.71 crore, ₹ 241.18 crore** and **₹ 229.43 crore** respectively. It can be said that the performance of the State in the form of Own Tax and Own Non-Tax revenue reflects the sincerity and seriousness of the State Government towards consolidation of its fiscal position.

30. While Receipts side of the Government shows moderate improvement, the expenditure side shows contrasted results. Thirteenth Finance Commission projected the Non-Plan expenditure of Mizoram for the year 2010-11, 2011-12 and 2012-13 as **₹ 1463.27 crore, ₹ 1564.20 crore** and **₹ 2002.55 crore** respectively whereas the actual and estimated expenditure of the State in the year 2010-11, 2011-12(RE) and 2012-13 (BE) are **₹ 1957.19 crore, ₹ 2243.34 crore** and **₹ 2583.56 crore** respectively. It can be simply seen from the above that the assessment of the Thirteenth Finance Commission was far below the actual requirement.

The repercussion of this mismatch assessment manifested in State's fiscal imbalances as a result of implementation of The Mizoram (Revision of Pay) Rules, 2010 to the employees of State Government. But, the Thirteenth Finance Commission did not recommend any grant for this purpose and they remain silent. The detailed disparity of this assessment has been discussed in para 18 and hence, will not be looked into in details for the time being.

31. One of the critical issues in the management of State finance is the after-shock of implementation of Pay Revision to State Government employees as indicated in the previous paragraph. Since Thirteenth Finance Commission did not take care of Pay Revision for the State Government employees, the State Government alone is struggling to tide over this aftershock. As mentioned before, the global economic recession and internal economic uncertainties is helping exacerbate the fiscal position of the State in addition to implementation of new Pay Revision. It may therefore be difficult for the State Government alone to sustain the existing position in view of the increasing requirement for revenue and non-plan expenditure over the medium term. The State finances may need help from the Centre to weed out this fiscal problem within a short term.

32. Another area of concern which heavily impacted on the State finances is incessant provision of mass subsidy on purchase of food grains and power. The initial Budget Estimates for Power purchase in the Budget 2011-12 was **₹ 75.00 crore.** Unfortunately, the same was required to be revised in the mid-year owing to unprecedented retrospective revision of power tariff with effect from 2004 by Central Electricity Regulatory Commission (CERC). Due to this revision, the State Government received supplementary bills from various Power utilities like NEEPCO, NHPC and PGCIL amounting to **₹ 41.35 crore** in the near end of last financial year which was, actually, not anticipated at the time of budget allocation was made at the beginning of the year. Besides these retrospective bills, the normal requirement of the Department as a result of tariff revision has also been increased to a huge amount and thereby resulting to Budget escalation in the Revised Estimates to the tune of **₹ 180.72 crore** . The increased percentage is 140.96 which is too heavy for a small state like us. In the meantime, the collection of revenue by the Power Department stood at **₹ 109.55 crore** making a difference of **₹ 71.17 crore** with actual expenditure. This difference induces a drain out of State Exchequer without refill from any sources. This persisting predicament in the State finances need appropriate address in a fitting manner so as to evolve better form of power trading in the principle of no-loss no-gain and to prevent leakage of State Exchequer.

33. Consequent to the above fiscal dilemma, the conduct of food grains trading in the State Government also requires urgent attention of the Government. During 2010-11, expenditure for purchase of food grains during the year was **₹ 105.24 crore** against the Budget Estimate of

₹ 38.27 crore. Similarly during 2011-12 also, there was a loss to the tune of **₹ 65.55 crore** owing to purchase of economic-cost category of food grains. It is question of the hour that how long the State Government could sustain this incessant loss/outgo from the State exchequer without proper refill which even arises as a result of improper food grains trading. In spite of food grains/Rice being the staple food of the State, the State's own production of Rice lasts for two months only. It is therefore imperative for the Government to import Rice from outside the State. Generally, food trading is supposed to be carried out in the principle of no-loss no-gain with a view to keep the liabilities minimal for the poor. In view of the important status the food trading gains in the State economy, the Government cannot simply do away and ignore the food grains trading. Instead, a better mechanism of providing subsidy should be evolved so as to attain the principle of no-loss no-gain vis-à-vis for maintaining fiscal indicators at a comfortable level.

34. As we are entering the dawn of Twelfth Five Year Plan, the fiscal policy of the State Government is going to be largely guided by the priorities and principle laid down by the Planning Commission. As such, the objectives of Twelfth Five Year Plan as prescribed by the Planning Commission may be highlighted below:

- **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

Fortunately, the objectives of the State during Twelfth Five Year Plan have been framed in line with these objectives. During 2012-13, Central Government has enhanced the amount of Plan Fund in the form of Normal Central Assistance, Special Plan Assistance, Additional Central Assistance etc… The increased percentage of Annual Plan size in this year over the previous year stood at 35.29 which is the highest ever increment since statehood was attained in 1987. This enhancement of Plan Fund will help the State in taking up developmental activities and in augmentation of plan fund on some priority social sector. As the first year of Twelfth Five Year Plan has been commenced from current financial year, the objective of the State Government will be achieving the growth target of 10 per cent as announced in the Budget Speech.

35. In order to catch up with the guidelines and principles laid down by Planning Commission, Government of Mizoram implemented the ambitious flagship programme called New Land Use Policy (NLUP) so as to enhance the productive capacity of rural areas through the system of weaning away the primordial method of Shifting cultivation with a structural replacement

by more systematic and scientific method of farming like Horticulture, Pisciculture etc. One of the drawbacks of State economy is lack of own production within the State which automatically adversely affects the growth rate of GSDP. Hence, with a view to improve the fiscal position of the State as well as enhancing the growth rate of GSDP uniformly, the State Government is highly committed to prudentially continue to reform the State economy through implementation of New Land Use Policy and therefore, to drive the fiscal wheel in the right direction.

36. Keeping in mind the various expenditure commitments of the Government indicated above, the State Government is trying to maintain the Revenue Surplus at ₹ **627.77 crore** and the fiscal deficit at ₹ **265.62 crore** during 2012-13 of which the fiscal deficit is 3.31 per cent of the projected GSDP for 2012-13 i.e ₹ **8018.96 crore.**

37. As a part of an effort to cautiously consolidate the fiscal position of the State and to undertake plan commitments and developmental initiatives for creating durable assets, the State Government has availed Loans from Asian Development Bank (ADB) through prior approval of Central Government for the implementation of Mizoram Public Resource Management Program (MPRMP) with effect from 2009 with a loan amount of **$ 100 million**. The main objective of the program is to bring about changes in fiscal operation of the State in a balanced and sustainable fiscal situation and to enhance the revenue earning capacity of the State. The Programme Components includes Tax and Non-Tax Reforms, Debt Management, Public Expenditure reforms, Public Sector Undertakings (PSUs) reforms, Pension Reforms and Sector Improvements in Health and Education Sector. The implementation of MPRMP could be divided into three tranche (installments). ADB has made certain condition for release of the said tranche that the same should be released only on fulfillment of the pre-determined conditions on fiscal reformations. In course of time, ADB has released **$ 47 million** and **$ 40 million** for the first tranche and second tranche respectively to State Government. The significant achievement of this MPRMP has revealed itself in many sectors.

38. Keeping in mind various commitments and provisions stated above, achieving the objectives of Mizoram FRBM Act, 2006 and consequently availing the benefits of fiscal reforms facility provided by Thirteenth Finance Commission will be the guiding principle of the State Government for the current financial year and the years to come. It is strongly believed that this principle will help the State finances in tiding over its fiscal constraints and imbalances.

39. The major fiscal initiatives that the Government will pursue during 2012-13 are given below in brief:

Tax Policy:

40. It is the untiring endeavor of the State Government to confine its fiscal policy in line with the fiscal reforms feature recommended by Thirteenth Finance Commission. Hence, Tax Policy is also required to be highlighted from the viewpoint of the Commission. As already highlighted in para 13 of this Statement, Thirteenth Finance Commission in its report Vol-II, Annexe-7.3 indicated that the Projected Tax-GSDP ratio for Mizoram State for the year 2010-11, 2011-12 and 2012-13 are 2.89 per cent, 2.95 per cent and 3.01 per cent respectively. At the same time, the actual performance and estimate of the State for the same year i.e 2010-11, 2011-12 (RE) and 2012-13 (BE) are 2.15 per cent, 2.58 per cent and 2.37 per cent respectively. This shows that the performance of the State in respect of Tax collection leaves lots of room for improvement. Meanwhile it may be pertinent to mention that the own Non-Tax-GSDP ratio also follows the same trajectory as that of the above. Hence, it is imperative for the Government to prudentially improve the prospect of Tax and Non-Tax administration across the State by adopting effective but prudential Tax and Non-Tax policy.

41. Mizoram is a resource-deficient State with limited tax-base. Owing to its geographical location, absence of Natural resources, non-conducive environment for establishment of Industry etc. private investment from inside as well as outside the State is virtually absent. Therefore, the main determinants of the fiscal position of the State are resources transferred from Central Government. Since such resources, sometimes, do not meet the normal requirement of the State, it is vital for the State Government to consciously improve own resources. Hence, it will be the continued endeavor of the Government to carefully pick up Own Tax and Own Non-Tax revenues and the Tax-GSDP ratio at the optimum level.

42. In this regard, the efforts of the State Government for augmentation of Own resources may be highlighted as below:

(a) Various User charges have been hiked. Some of them are Water tariff, Power tariff etc.

(b) To enhance and pick up Tax collection efficiency, Taxation Department has been restructured and strengthened through the implementation of Mizoram Public Resource Management Programme (MPRMP). Besides, collection of Tax through e-payment system has also been introduced as a part of computerization of records on tax collection. This initiative has brought about a turnaround in the tax collection efficiency since last financial year.

(c) Sales Tax imposed on Liquefied Petroleum Gas (LPG), Motor Spirit (Petrol) and High Speed Diesel (HSD) has been increased

considerably. It is believed that this drive would collect substantial amount of revenue to the State Exchequer.

(d) *It is being actively pursued to implement upward revision of various taxes on Land & Building.*

43. It will now, therefore, be the prudential Tax policy of the State Government to implement new measures and to improve the existing tax administration by enhancing the tax collection efficiency with augmenting awareness to the public on the issue of Tax payments compliance so as to surpass the FC-XIII projected Tax-GSDP ratio in a few financial years to come.

Expenditure Policy:

44. The Expenditure Policy of the State Government should, first of all, be guided by the provisions and recommendations laid down by Thirteenth Finance Commission. In the meantime, as it has been highlighted in para 18, the State still faces certain fiscal hiccups in spite of the volume of resources transferred being considerably increased compared to the resources transferred by the previous Commission. The main bottleneck in the management of State finances is implementation of Pay Revision to State Government's employees. As Thirteenth Finance Commission remains silent on this issue, the State Government alone is struggling to overcome this financial predicament without any additional resources from anywhere. This problem is aggravated by the fact of incessant provision of mass subsidy on purchase of food grains and power. Hence, it is essential for the State Government to deliberately draw up its expenditure policy and to formulate the ground solution for settlement of this fiscal quandary.

45. As a part of an effort to bring about fiscal reforms in a balanced and sustainable fiscal position with an aim at enhancing the revenue earning capacity of the State, Government of Mizoram is implementing Mizoram Public Resource Management Program. Under this Program, the State Government avails a Program Loan also called Structural Adjustment Loan from Asian Development Bank (ADB). The total amount of Loan was **$ 100 million (₹ 470.00 crores approx.)**. Government of India converted the Loan into 90 per cent Grant and 10 per cent Loan. The Loan was to be released in three tranches (installments) based on the performance of the targeted areas. Two installments have been released so far. Besides, many initiatives have been actively undertaken and pursued by the State Government. Some of them may be delineated in brief as below:

(a) *In order to initiate and pursue Public Expenditure Reforms, this programme (MPRMP) introduced a significant Medium Term Expenditure Frameworks (MTEF) and Medium Term Fiscal Frameworks (MTFF) which are believed to have an effective impact in the budgetary exercise in a more systematic manner.*

Two Consultants with specialization in MTEF had also been engaged to study Education and Health sectors as a pilot project, and it is hoped that a crucial and meaningful report would be submitted in due course.

(b) *Another important project under public expenditure reforms is Computerizations of Treasuries and other selected Departments like Taxation, Public Health Engineering, Land Revenue & Settlement, Accounts & Treasuries, Health & Family Welfare and Education Department. As a part of this effort, Aizawl South Treasury has been computerized as a pilot project. Besides, Registration of Out-Patient in Out-Patient Department (OPD), Civil Hospital, Aizawl has also been computerized. In this connection, the abovementioned Department actively pursue computerization program within their Departments so as to achieve better public services delivery with less expenditure. Computerization of the remaining Treasuries and Departments will follow soon.*

(c) *The Thirteenth Finance Commission recommended completion a roadmap for closure of non-working PSUs by March 2011 (Para 7.95 & 7.97 of its Report); a task force and a steering committee should also be put in place to oversee sale or closure of such non-working PSUs (Para 7.98 of its Report). Recognizing this fact, PSUs restructuring specialist has been engaged by Finance Department. They have already submitted their reports and specific recommendations to the State Government. It is hoped that this action will help the Government in rebuilding some of the PSUs.*

(d) *In order to contain and reduce non-productive expenditure, the State Government has also introduced Special Voluntary Retirement Scheme for Teachers for reduction of expenditure on Salary and its related items. Besides, it has also launched New Defined Contributory Pension Scheme as a part of economy measures to redefine and filter public expenditure. Moreover, filling up of vacant post is restricted to the minimum level such that more than 8000 posts are presently lying vacant. Also, restriction on tour outside the State is imposed with an exception of prior permission of Chief Secretary. It is expected that these initiatives will bring about fruitful results within current financial year as well as in the future.*

46. The main objectives of the Government's expenditure will continue to focus on increased spending for capital investments for laying development infrastructure. Utmost efforts will continue to be taken to contain revenue expenditure and increasingly utilize resources for meeting capital expenditure.

Borrowings and Other Liabilities, Lending and Investments:

47. Thirteenth Finance Commission in its Report Chapter 9 contended that State Government is required to bring down the debt stock/outstanding liabilities to 68 per cent of GSDP by the end of the award period (2014-15). As it is mandatory for the State Government to fulfill and satisfy the recommendation of FC-XIII so as to benefit the debt relief awarded by the Commission, it is required to draw conscious and prudential policy on borrowings to restrain the net borrowings at sustainable level especially in relative to GSDP and Revenue Receipts. As a part of revised roadmap for fiscal consolidation, Thirteenth Finance Commission recommended that the debt stock as a percentage of GSDP of Mizoram State has to be reduced as per the target set below:

87.3 per cent of GSDP in 2010-11,
85.7 per cent of GSDP in 2011-12 and
82.9 per cent of GSDP in 2012-13

Targets for three years only is being indicated above with a view to simplify comparison of the target with the actual achievement of the State.

48. Compared to above targets, the actual achievement of the State in respect of outstanding liabilities is satisfactory. In fact, the achievements are much lower to the target shown above. The amount of outstanding liabilities accumulated by Mizoram State for the year 2010-11, 2011-12 (RE) and 2012-13 (BE) are as follows:

61.03 per cent of GSDP in 2010-11,
57.13 per cent of GSDP in 2011-12 and
54.40 per cent of GSDP in 2012-13

Comparing the achievement/estimate of outstanding debt of the State with the projection of Thirteenth Finance Commission, it can be deduced that the actual position of the State in respect of outstanding debt is absolutely agreeable.

However, it may be pertinent to mention that the State Government is not given free hand in working out the borrowing limit for current financial year. Ministry of Finance, Government of India has always fixed the borrowing limit for the State as per the recommendation of Thirteenth Finance Commission at para 9.85 of its Report. Even for the current financial year 2012-13, the borrowing limit has been placed at ₹ **383.00 crore** which is actually the extent of permitted fiscal deficit as a percentage of GSDP for this year. This restriction plays an important part in bringing the fiscal deficit as well as outstanding debt under control.

49. The gross State Government Budgetary borrowings during current financial year was fixed at ₹ **455.39 crore** out of which the net borrowing

was placed at ₹ **383.00 crore** and the net Market borrowings was kept at ₹ **285.75 crore.** Meanwhile, borrowing from State Provident Fund is placed at ₹ **98.5 crore** with Gross Negotiated Loans at ₹ **51.50 crore.** At the same time, the total repayments amount was fixed at ₹ **72.39 crore.** As the borrowing limit is gradually decreasing over the years in accordance with space for permitted fiscal deficit as per Thirteenth Finance Commission, the State Government needs to focus on reduction of weight average interest rates on the borrowings so as to reduce expenditure for Interest Payments. Thus, it will be commitment of the Government to favour low-cost RIDF loans of NABARD for creation of capital infrastructure in the rural and agricultural sector.

50. The State Government efforts to minimize the debt burden of the State through implementation of Mizoram Public Resource Management Program (MPRMP) may be highlighted herein. An amount of **$ 27 million (₹ 132.732 crore)** was received from Asian Development Bank as the Second Tranche Fund. As such, prepayment of high cost loans was carried out using this fund and the following prepayments/buybacks were made up to March, 2012

(a) REC Loan	:	**₹ 55,82,89,531/-**
(b) LIC Loan	:	**₹ 37,13,22,117/-**
(c) RBI Market Loans	:	**₹ 34,99,92,171/-**
Grand Total	:	**₹ 127,96,03,819/-**

The significant bearing of this MPRMP on the State finances may be seen from the table below as the same is being implemented with effect from September, 2009 only.

Fiscal Indicator	**2007-08 Actuals**	**2008-09 Actuals**	**2009-10 Actuals**	**2010-11 (RE)**	**2011-12 (RE)**	**2012-13 (BE)**
Debt-GSDP ratio	89.76	85.58	57.55	61.03	57.13	54.40

Consolidated Sinking Fund

51. The State Government is, sometimes, required to build up a reserve fund to meet future repayments obligations of loans contracted in the past. Such reserve fund built up by the State Government is called Consolidated Sinking Fund. During 2010-11, an amount to the tune of ₹ **16.50 crore** was invested which is the prescribed 0.5 per cent of the total outstanding liabilities of the State Government as on 31.3.2010. The continued investment of the Government results in accumulation of Sinking Fund and the principal amount already invested up to 31.3.2011 comes to ₹ **90.75 crore.** During 2011-12, another amount of ₹ **21.75 crore** was invested again. Hence, the outstanding balance in Consolidated Sinking Fund at 31st March, 2012 is ₹ **112.50 crore.**

Contingent and Other Liabilities

52. Guarantee Redemption Fund (GRF) has been set up by the Government on May, 2009 with initial corpus of ₹ **50.00 lakh** as a part of an endeavor to manage contingent liabilities efficiently. As the policy of availing loans and borrowings has to be undertaken under strict and prudent guidance of the Thirteenth Finance Commission recommendation, it is imperative for Government of Mizoram to adopt a conscious and mindful policy of restricting the size of contingent liabilities not to fall out of the recommendations. A ceiling was laid down that fresh guarantees in a year should not exceed ***3 per cent*** of GSDP. The initial corpus fund has been augmented in 2010-11 by investing an additional amount of ₹ **50.00 lakh.** The additional amount of ₹ **100.00 lakh** was invested again during 2011-12. During 2012-13, it is tentatively proposed to augment the corpus fund by ₹ **150.00 lakh.** As on 31.3.2012, the corpus fund is estimated to touch the amount of ₹ **200.00 lakh.** In the meantime, the outstanding Guarantees given by the State Government at the end of the year 2011-12 is worked out to be ₹ **102.75 crore.**

Levy of User Charges

53. Levy of User Charges is one of the serious issues of concern for the State Government as contribution of Non-Tax revenue in the State Annual Plan is always negative for which hiking of User charges is the key point to address the issue effectively and efficiently. In other words, the Non-Plan Revenue Receipts of some Departments are falling short of their corresponding Non-Plan Revenue expenditure tremendously thereby causing negative net Non-Plan Revenue receipts in the assessment of State's resources. Since User charges is the main contributors in the Non-Plan Revenue Receipts, improper collection or reprehensible fixation of User charges pays a heavy price to the State finances as negative Balance from Current revenue is dearly costing the State Annual Plan size. Therefore, levying optimum level of user charges and differential subsidy will be one of the main focal points of State's fiscal policy which should, however, be carried out without losing sight of ensuring social and economic security to common citizen of the State. Even the State Government also pays stern concern over the issue of User charge and took many initiatives in this regard. Some of the initiatives may be highlighted as below:

(a) The State Government has increased various user charges on supply of drinking water and the system of how water is supplied. Owing to public pressure, the Notification for hiking water tariff was suspended for a period of around 6 months. However, the suspension order has been revoked recently and the new rates have now been applied for working out of various user charges on water supply.

(b) Besides drinking water supply, Joint Electricity Regulatory Commission (JERC) for the two States Mizoram and Manipur also used to revise the power tariff on periodical pattern. As the expenditure incurred for purchase of power has been one of the main outgo of cash from the State Exchequer, Government of Mizoram used to implore JERC to upwardly revise power tariff so as to minimize the impact of power purchase's expenditure on State finances.

(c) Compulsory registration of various documents relating to Land Revenue & Settlement Department such as Land Settlement Certificates (LSC), Periodic Patta etc…has been actively pursued for early implementation. However, owing to certain technical problems, the actual implementation of the same has not yet taken off. It is expected that proper execution of the said registration would be put in place within a foreseeable future.

(d) Fee collected on account of registration of Casual Labourers, Helpers could also be termed as User charges. Therefore, compulsory registration of Casual Labourers is also intended to be implemented in due course so as to augment Non-Tax Revenue in the State.

(e) User charges like Agency charges, bamboo tariff, royalty from Sand, Stones etc…also attract serious attention of the Government. State PWD can claim Agency charges to Ministry of Road Transport, Government of India on account of being an agency of the said Ministry in actual implementation of National Highway in the State. However, State Government noticed some irregularities and procedural lapses in claiming of Agency charges so that a Special Audit Team was constituted to look into the matter in detail. The Special Audit Team has submitted their report to the Government. It is hoped that better result would be seen in the collection of Agency charges from current financial year.

54. For the years to come, priority would remain accorded on augmentation of resources especially in respect of Non-Tax resources in the State policy and programme.

C. STRATEGIC PRIORITIES FOR THE ENSUING YEAR:

55. Since the fiscal policy of the State needs to align with the provisions and recommendation laid down by Thirteenth Finance Commission, complying with fiscal reforms features recommended by the said Commission would be the top priority of the State. Moreover, the priority of the State Government will continue to follow its commitment to adhere to the provisions and stipulations enshrined in the Mizoram Fiscal Responsibility Act successfully without losing sight of enhancing fund for creation of capital assets. Thus, the State Government will try to achieve all

the target set by Thirteenth Finance Commission even before the stipulated time by tapping all available resources vis-à-vis rationalizing non-productive expenditure. Besides, the increasing devolution of resources owing to Thirteenth Finance Commission recommendation and dawning period of Twelfth Five Year Plan is expected to help the State Government in crushing the bottlenecks of its fiscal management.

D. POLICY EVALUATION:

56. The fiscal policy of the State has been passing through period of darkness and happiness since attainment of Statehood in 1987. Particularly, the fiscal situation of the State before enactment of Fiscal Responsibility and Budget Management (FRBM) was sticky and gloomy. The State finances had often slipped into Overdraft many times thereby leading to suspension of payments which is very unfortunate for the State Government. Moreover, the State was also required to finance its revenue expenditure from capital expenditure related earmarked fund in many occasions. However, from the stint of Twelfth Finance Commission in which enactment of own version of FRBM was strongly recommended with an incentive of debt relief on compliance, the fiscal prospects of the State has been gradually improving. Hence, the State continued to maintain Revenue surplus since the financial year 2003-04 till date which is one of the most noteworthy achievement of the State. Being a resource-deficient State, it is sometimes difficult to chalk out a meaningful separate fiscal policy barring the fiscal policy of the Central Government. Hence, the significant prudential policy which the State Government can undertake is rationalizing expenditure and ensuring optimum utilization of available fund within its own jurisdiction. Besides, provision of mass subsidy on purchase of food grains and power also required urgent remedial measures in the form of policy and programme.

57. The fiscal performance of the State in the last few years may be presented in brief so as to highlight the beneficial impact of FRBM Act, 2006 which has been put into place as a part of State Government's effort to comply with the recommendations of Twelfth and Thirteenth Finance Commissions. During 2010-11, the State could attain a Revenue Surplus to the tune of **₹ 119.68 crore.** Similarly, the Revenue Surplus for the year 2011-12 (RE) and 2012-13 (BE) are put at **₹ 193.66 crore** and **₹ 627.77 crore** respectively. In the meantime, the fiscal deficit of the State for the year 2010-11 (actual), 2011-12 (RE) and 2012-13 (BE) are **₹ 499.60 crore, ₹ 490.86 crore** and **₹ 265.62 crore** respectively. In view of the prescription target set by Thirteenth Finance Commission, the fiscal deficit of the State is sometimes above the projected path of fiscal correction. Even for the year 2010-11 (actual), the target of fiscal deficit as a percentage of GSDP is 7.5 whereas the actual achievement was 8.25 per cent. The main cause of such deflection is implementation of Pay Revision to the Government employees and its consequential impact. As the detail has

been discussed in the previous paragraph, in-depth analysis may not be taken in this Para. However, the fiscal policy of the State should be managed and administered carefully and prudentially so as to bypass the impact of global as well as sovereign economic slowdown by consciously dealing the expenditure side based on the available resources.

58. It will be the nonstop endeavor of the State Government to take paramount effort to generate its own resources vis-à-vis rationalizing the unproductive expenditure in order to set aside the maximum for creation of capital assets. This effort also is expected to correspondingly bring about an improvement in creating more fiscal space for enhancing capital expenditure.

E. RATIONALE FOR POLICY CHANGES:

59. Recognizing the necessity and inevitability of stepping up own resources, the State Government has introduced various Tax and Non-Tax reforms with the help of Structural Adjustment Loans availed from Asian Development Bank through implementation of Mizoram Public Resource Management Programme. Besides, an effort to review the present system of providing mass subsidy on the purchase of food grains is also under active consideration. Moreover, the State Government programme and policy will be strongly guided by the principles of fiscal management with numerical targets outlined in the FRBM Act as amended from time to time. The State Government will also continue to focus towards Public Resource Management, Capacity Building and Tax & Non-Tax Reforms so as to achieve the objectives of containing surging expenditure and meeting its developmental commitments.

61. Keeping in mind the fiscal management and policy for the last few years, the Government of Mizoram has redrawn a Fiscal Correction Path in the light of 2010-11(actual), 2011-12(BE), 2011-12(RE) and 2012-13(BE) including projections for the next one year in a format devised by Ministry of Finance, Government of India in its guidelines for implementation of Debt Consolidation and Relief Facility recommended by Twelfth Finance Commission. The Fiscal Correction Path is given in **Form-II (b).** Selected fiscal indicators are also appended herewith in **Forms D-1, D-2, D-3, D-4** and **D-5.**

FORM II (b) Annexure - II

State : Mizoram

Outcome indicators of the State's Own Fiscal Correction Path

(Rupees in Crore)

	Items	2008-09 (Actuals)	2009-10 (Actuals)	2010-11 (Actuals)	2011-12 (BE)	2011-12 (RE)	2012-13 (BE)	2013-14 (Proj)
A	**STATE REVENUE ACCOUNT :**							
1	Own Tax Revenue	94.62	107.58	130.08	173.17	180.31	190.42	218.41
2	Own Non-Tax Revenue	158.67	126.50	146.71	237.58	241.18	229.43	263.16
3	***Own Tax+Non Tax Revenue (1+2)***	***253.29***	***234.08***	***276.79***	***410.75***	***421.49***	***419.85***	***481.57***
4	Share in Central Taxes & Duties	383.39	394.53	590.78	709.73	709.73	813.71	895.00
5	Plan Grants	1281.83	1609.56	1688.08	1701.90	2069.11	2398.56	2638.42
6	Non-Plan Grants	734.62	725.33	819.06	925.92	927.39	1164.36	1280.80
7	***Total Central Transfer (4 to 6)***	***2399.84***	***2729.42***	***3097.92***	***3337.55***	***3706.23***	***4376.63***	***4814.22***
8	***Total Revenue Receipts (3+7)***	***2653.13***	***2963.50***	***3374.71***	***3748.30***	***4127.72***	***4796.48***	***5295.79***
9	Plan Expenditure	740.58	897.35	1197.48	1206.18	1506.76	1588.51	1747.36
10	Non-Plan Expenditure	1573.22	1805.35	2057.55	2220.08	2427.30	2580.20	2838.22
	of which							
11	Salary Expenditure	739.06	881.80	1171.72	1223.55	1240.22	1483.15	1631.46
12	Pension	126.05	164.26	248.75	219.01	219.01	238.72	262.59
13	Interest Payments	225.61	254.35	105.46	271.24	271.70	241.99	266.19
14	Subsidies - General	-	-	-	-	-	-	-
15	Subsidies - Power	-	-	-	-	-	-	-
16	***Total Revenue Expenditure (9+10)***	***2313.80***	***2702.70***	***3255.03***	***3426.26***	***3934.06***	***4168.71***	***4585.58***
17	Sal+Interest+Pensions (11+12+13)	1090.72	1300.41	1525.93	1713.80	1730.93	1963.86	2160.24
18	as % of Revenue Receipts (17/8)	41.11	43.88	45.22	45.72	41.93	40.94	40.79
19	***Revenue Surplus/Deficit (8 -16)***	**339.33**	**260.80**	**119.68**	**322.04**	**193.66**	**627.77**	**710.21**

FORM D - 1

(See Rule 9)

SELECT FISCAL INDICATORS

	Items	2010-11 (Actuals)	2011-2012 (RE)
1	Gross Fiscal Deficit as Percentage of GSDP	8.25	7.02
2	Revenue Deficit (-)/Surplus (+) as Percentage of GSDP	1.98	2.77
3	Revenue Deficit (-)/Surplus (+) as Percentage of TRR	5.92	4.69
4	Total Liabilities - GSDP Ratio (%)	61.03	57.13
5	Total Liabilities - Total Revenue Receipts (%)	109.56	96.77
6	Total Liabilities - State's Own Revenue Receipts (%)	1335.76	947.70
7	State's Own Revenue Receipts - Revenue Expenditure (%)	8.50	10.71
8	Capital Outlay as Percentage of Gross Fiscal Deficit	123.17	139.80
9	Interest Payment as Percentage of Revenue Receipts	38.10	64.46
10	Salary Expenditure as Percentage of Total Revenue Receipts	34.72	30.05
11	Pension Expenditures as Percentage of Total Revenue Receipts	7.37	5.31
12	Non-Developmental Expenditure as Percentage of Aggregate Disbursement	24.07	25.58
13	Gross Transfer from the Centre as Percentage of Aggregate Disbursement	72.10	71.98
14	Non-Tax Revenue as Percentage of Total Revenue Receipts	4.35	5.84

FORM D - 2
(See Rule 9)

A. COMPONENTS OF STATE GOVERNMENT LIABILITIES

(₹ in crore)

Category	Raised during the Fiscal Year		Repayment/Redemption during the Fiscal Year		Outstanding Amount (End-March)	
	2010-11 (Actuals)	2011-12 (RE)	2010-11 (Actuals)	2011-12 (RE)	2010-11 (Actuals)	2011-12 (RE)
Market Borrowings	**266.71**	**350.18**	**21.10**	**105.26**	**1084.04**	**1328.96**
(a) Market Loans	*266.71*	*350.18*	*16.54*	*100.70*	*1058.98*	*1308.46*
(b) Power Bonds	-	-	*4.56*	*4.56*	*25.06*	*20.50*
Loans from Centre	**3.25**	**23.03**	**23.07**	**18.05**	**539.93**	**544.91**
(a) Block Loans	*3.25*	*23.03*	*23.07*	*17.97*	*298.43*	*303.49*
(b) Other Loans	-	-	-	*0.08*	*241.50*	*241.42*
Special Securities issued to the NSSF	**26.46**	**10.74**	**5.40**	**6.72**	**167.56**	**171.58**
Borrowings from Financial Institutions/Banks	**53.75**	**71.71**	**44.25**	**160.54**	**336.01**	**247.18**
(a) LIC	*10.00*	*10.00*	*24.16*	*25.66*	*221.29*	*205.63*
(b) NABARD	*40.00*	*60.00*	*11.07*	*10.48*	*89.47*	*138.99*
(c) NCDC	-	*1.71*	*0.51*	*0.51*	*3.86*	*5.06*
(d) Other Institutions	*3.75*	-	*8.51*	*123.89*	*21.39*	*-102.50*
WMA/OD from RBI	**163.36**	-	**163.36**	**52.15**	**27.21**	**79.36**
Provident Funds, etc.	**495.88**	**452.91**	**219.96**	**372.91**	**1542.49**	**1622.49**
(a) Government Provident Fund	*493.58*	*449.41*	*216.11*	*370.41*	*1481.31*	*1560.31*
(b) Insurance & Pension Fund	*2.30*	*3.50*	*3.85*	*2.50*	*61.18*	*62.18*
Other Liabilities	**15.17**	-	-	-	-	-
TOTAL	**1024.58**	**908.57**	**477.14**	**715.63**	**3697.24**	**3994.48**

B. WEIGHTED AVERAGE INTEREST RATES ON STATE GOVERNMENT LIABILITIES

(Percent)

Category	Raised during the Fiscal Year		Outstanding Amount (End-March)	
	2010-11 (Actuals)	2011-12 (RE)	2010-11 (Actuals)	2011-12 (RE)
Market Borrowings				
(a) Market Loans	8.21	8.66	8.04	8.04
(b) Compensatory and other Bonds	-	-	8.50	8.50
Loans from Centre	9.00	9.00	8.42	8.42
Special Securities issued to the NSSF	9.00	9.00	9.82	9.82
Borrowings from Financial Institutions/Banks				
(a) LIC	9.00	9.00	7.70	7.70
(b) NABARD	6.50	6.50	6.50	6.50
(c) REC	12.00	-	10.28	10.28
(d) PFC	-	-	-	-
(e) NCDC	-	9.25	9.25	9.25
WMA/OD from RBI	-	-	-	-
Provident Funds, etc.	8.00	8.00	8.00	8.00
Other Liabilities	-	-	-	-
TOTAL	**9.26**	**9.26**	**8.14**	**8.14**

FORM D-3
(See Rule 9)

CONSOLIDATED SINKING FUND (CSF)

(Amount in Rs. crore)

Outstanding Balance in CSF at the begining of the previous year 1st April, 2010	Additions during the previous year	Withdrawals from CSF during the previous year	Outstanding balance in CSF at the end of the previous year/ beginning of the previous year 31st March, 2011	Col (4)/ Outstan-ding stock of SLR Borrowings (%)	Additions during the current year 2011-12	Withdrawals from CSF during the current year	Outstanding balance in CSF at the end of current year/beginning of ensuing year Tentative 31st March, 2012	Col. (S) Outstanding stock of SLR Borrowings (%)
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*
74.25	16.50	-	90.75	-	21.75	-	112.50	

FORM D-4
(See Rule 9)

GUARANTEES GIVEN BY THE GOVERNMENT

Category	Maximum Amount Guaranteed (Rs. In crore)	Outstanding at the begining of the year 2011-12 (Rs. in crore)	Additions during the year 2011-12 (Rs. in crore)	Reductions during the year 2011-12 (Rs. in crore)	Invoked during the year 2011-12 (Rs. Crore)		Outstanding at the end of the year 2011-12 (Rs. Crore)	Guarantee Commission or Fee (Rs. Crore)		Remarks
					Discharged	Not Discharged		Receivable	Received	
1	2	3	4	5	*6*	*7*	*8*	*9*	*10*	*11*
Cooperative	118.03	53.77	-	-	-	-	53.77			The Mizoram Ceiling on Government Guarantees Rules are being framed and not yet made effective. Hence, Guarantee commission or fee has not yet been collected
Govt. Companies	19.08	18.29	-	-	-	-	18.29			
Other Statutory Corporation	37.41	26.08	-	-	-	-	26.08			
Other Institutions	14.50	4.61	-	-	-	-	4.61			
TOTAL	**189.02**	**102.75**					**102.75**			

FORM D-5
(See Rule 9)

OUTSTANDING RISK - WEIGHTED GUARANTEES

Default Probability	Risk Weights (Percent)	Amount outstanding as in the Previous year and the Current Year	Risk Weighted outstanding guarantee in the previous year and the Current Year
Direct Liabilitities	100		
High Risk	65		
Medium Risk	55		
Low Risk	25		
Very Low Risk	5		
Total Outstanding			

Note : An assessment of Risk-weighted Government guarantees is not yet completed. Hence default probability in the guaranteed loans could not be assigned.

(Rupees in Crore)

	Items	2008-09 (Actuals)	2009-10 (Actuals)	2010-11 (Actuals)	2011-12 (BE)	2011-12 (RE)	2012-13 (BE)	2013-14 (Proj)
B	**CONSOLIDATED DEBT :**							
1	Outstanding debt and liability	3259.82	3163.95	3697.24	3975.73	3994.48	4362.31	4580.43
2	Total Outstanding guarantee	114.25	102.99	102.75	103.25	103.25	103.25	103.25
	[of which guarantees on account of budgeted borrowing and SPV borrowing]							
C	**CAPITAL ACCOUNT :**							
1	Capital Outlay	441.04	572.80	615.38	496.95	686.22	888.74	977.61
2	Disbursement of Loans and Advances	17.41	24.94	29.87	34.71	35.06	31.20	34.32
3	Recovery of Loans and Advances	24.86	25.32	25.97	36.76	36.76	26.55	26.55
4	Other Capital Receipts	-	-	-	-	-	-	-
5	Transfer to Contingency Fund	-	-	-	-	-	-	-
D	**GROSS FISCAL DEFICIT :**	-94.26	-311.62	-499.60	-172.86	-490.86	-265.62	-275.17
	$[(A_8+C_3+C_4)-(A_{16}+C_1+C_2+C_5)]$							
E	**GSDP (Rs. crs.) at current prices**	3809.16	5497.93	6057.70	6991.40	6991.40	8018.96	9200.71
	Actual/Assumed Growth Rate (%)	11.65	44.33	10.18	15.41	0.00	14.70	14.74
F	**INDICATORS AS % OF GSDP**							
1	Own Tax Revenue (A1/E)	2.48	1.96	2.15	2.48	2.58	2.37	2.37
2	Own Non-Tax Revenue (A2/E)	4.17	2.30	2.42	3.40	3.45	2.86	2.86
3	Total Central Transfer (A7/E)	63.00	49.64	51.14	47.74	53.01	54.58	52.32
4	Total Revenue Expenditure (A16/E)	60.74	49.16	53.73	49.01	56.27	51.99	49.84
5	Revenue Surplus/Deficit (A19/E)	8.91	4.74	1.98	4.61	2.77	7.83	7.72
6	Gross Fiscal Deficit *	2.15	5.67	8.25	2.47	7.02	3.31	2.99
7	Outstanding Debt and Liabilities (B1/E)	85.58	57.55	61.03	56.87	57.13	54.40	49.78

* The State's GSDP series has been taken for measuring the GFD relative to GSDP.