



MEDIUM TERM FISCAL POLICY STATEMENT

*(As required under Section 5(1) of
The Mizoram Fiscal Responsibility and Budget Management Act, 2006)*

GOVERNMENT OF MIZORAM

2013-2014

(15th March, 2013)

FORM – I**(See Rule 3)****MEDIUM TERM FISCAL POLICY STATEMENT****A. FISCAL INDICATORS – ROLLING TARGETS**

Sl. No	Item	2011-12 (Actuals)	2012-13 (Budget Estimates)	2012-13 (Revised Estimates)	2013-14 (Budget Estimates)	Targets for next Two Years	
						2014-15 (Proj)	2015-16 (Proj)
1	Revenue Deficit(-) / Surplus(+) as a percentage of GSDP	4.12	7.83	7.32	4.15	4.44	4.44
2	Fiscal Deficit as a percentage of GSDP	3.04	3.31	7.01	0.80	0.30	0.30
3	Total outstanding Liabilities as a percentage of GSDP	57.21	54.40	52.89	49.81	46.40	46.40
4	Total outstanding Liabilities as a percentage of Total Revenue Receipt(TRR)	99.70	90.95	80.63	90.94	87.62	87.62
5	Interest Payments as a percentage of Total Revenue Receipt(TRR)	6.82	5.05	4.72	4.93	4.89	4.89

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 Department is taken into account.

1. The current fiscal regime of the country is being administered under the close and stern watch of Thirteenth Finance Commission's recommendation. As well known, the sovereign fiscal federalism is maintained and operated through recommendation of various successive Finance Commissions. As a result of which, the fiscal maneuverability of an entity depends to a large extent on the recommendation of these Finance Commissions.

2. As a part of measures for fulfillment of Twelfth Finance Commission's recommendation, Mizoram Fiscal Responsibility and Budget Management Act, 2006 (MFRBM) was legislated and enacted. This MFRBM was reinforced and made stronger by Thirteenth Finance Commission under which some targets were reset so as to ease out some pre-determined condition for the State. These fiscal measures are tremendously significant and useful in the management of State finances. Being a small state, tax base is limited and narrow due to which own revenues fall short of the target very often. Meanwhile, it is essential from the part of the Government to take care of ever increasing cost of administration and secular devaluation of currency. At this point of juncture, Mizoram FRBM Act plays an important role for balancing the two sides of the same coin so as to avoid irreversible financial crisis.

3. The key fiscal indicators like revenue surplus, fiscal deficit, outstanding liabilities etc... are also watched and supervised to fall in line with Thirteenth Finance Commission's recommendations. Revenue surplus has been maintained in the revenue account of state budget since 2003. Fiscal deficit also has been curtailed to remain within the recommended target and outstanding debt is being managed not to stay out of the recommended periphery.

4. Though it was already highlighted in Medium Term Fiscal Policy Statement 2012-13, 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.

5. It is the commitment of the State to improve Tax-GSDP ratio. In 2008-09, the Tax-GSDP ratio stood at 2.48. In 2009-10, the same stood at 1.96 and it was 2.15 during 2010-11, 2.56 during 2011-12 (Pre-actual) and 2.52 during 2012-13(RE). During 2013-14(BE), it is expected to achieve the ratio of 2.42. It is evident that State Government needs to put more efforts to improve Tax-GSDP ratio. As a part of conscious effort to improve this ratio, State Government embarks on the following initiatives:

- (i) Introduction of Mizoram Development Tax. Initiative in this regards is being undertaken by Law Department & Taxation Department. It is considered to be a replica of Income Tax currently levied by Central Government.
- (ii) Implementation of Entry tax is currently under active consideration. However, the taxable-area needs to be limited to Aizawl Municipal jurisdiction alone.
- (iii) Amendment of Mizoram Entertainment Tax is also initiated for augmentation of the tax base.
- (iv) It was also proposed that presumptive tax be collected from Contractors across the State which may be worked out on slab-basis.
- (v) It is also intended to streamline Tax Deduction at Source (TDS), currently in practice, for more effectiveness.
- (vi) It is also proposed to enhance the tax base. For instance, Fashion, Garments, Readymade material imports from outside the State as well as foreign countries like Thailand, China etc... could be taxed and included under tax regime.

6. Stress has also been given on improvement of expenditure quality. Initiatives like 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 will be implemented over the medium term.

7. The borrowing policy of the State is strongly guided by Ministry of Finance's instructions which drew a line of reference from Thirteenth Finance Commission's recommendation. Thirteenth Finance Commission recommended that the Central Government would set net borrowing limits for States based on the fiscal deficit they possessed in that particular year. The fiscal deficit, on the other hand, can be defined as the excess of total disbursements from the consolidated fund of the State (excluding repayment of debt) over the sum of revenue receipts, recovery of loans and non-debt capital receipts into the fund during a financial year. As per Thirteenth Finance Commission's recommendation, the fiscal deficit of Mizoram has to be 4.1 per cent of GSDP in 2013-14. This recommendation encapsulates even borrowing under Plan fund. Based on this projection, it is presumed that the fiscal deficit of the State in absolute terms in the fiscal 2013-14 would be ` 377.23 crore. State Government needs to work out its requirement taking into account this limitation.

8. Consolidated Sinking Fund is being raised for redemption of debt raised from Open Market Borrowing and any other available resources. During 2011-12, ` 21.75 crore was allotted for this purpose so that the amount under this Fund at 31.3.2012 is worked out to be ` 112.50 crore. Similarly, an amount to the tune of ` 17.90 crore is allocated for this purpose during 2012-13. Hence, the accumulated amount under Consolidated Sinking Fund at 31.3.2013 would be ` 135.40 crore. During 2013-14, ` 20.90 crore is proposed to be invested under this Fund again. However, the same Fund is being invested by Reserve Bank of India on behalf of Government of Mizoram and is earning interest.

9. Guarantee Redemption Fund was set up on May, 2009 with initial corpus of ` 50.00 lakh to cope with the possible invocation of State's guarantee given to Departments or semi-autonomous bodies. During 2012-13, Fund was augmented by ` 150.00 lakh. As on

31.3.2013, the corpus fund is worked out to be ` 350.00 lakh against the outstanding guarantees of ` 126.30 lakh at the end of 2012-13. During 2013-14, it is intent on augmenting the Fund by ` 200.00 lakh again. In tune with Consolidated Sinking Fund, the corpus fund is also invested on behalf of Government of Mizoram by Reserve Bank of India and is earning interest.

10. Budget 2013-14 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

11. 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. Recently, a huge improvement is seen on the performance of Tax collection in almost all Departments, in particular, in revenue earning Departments. As a result of which, target under Tax revenue for the year 2013-14 is set at ` 222.25 crore which is 10 per cent increase over the Budget Estimates of the previous year. The estimate of Tax Revenue during 2013-14 is 2.42 per cent of the corresponding projected GSDP. Assuming 14.7 per cent annual growth rate, the projections for 2014-15 and 2015-16 are estimated at ` 255.09 crore and ` 292.97 crore respectively.

Non-Tax Revenue

12. Efforts are on from the part of Government to augment Non-Tax Revenue to the largest possible extent. Besides, User charge on water tariff has also been increased. Rates of Power tariff are also to be increased at a certain period of interval. Accounting all these together,

Budget Estimates for State Own Non-Tax Revenue (SONTR) for financial year 2013-14 is pegged at ` 266.00 crore which is 2.89 per cent of the projected GSDP (` 9200.71 crore in 2013-14). Assuming 14.7 per cent annual growth rate, the forecasted SONTR for 2014-15 and 2015-16 are estimated at ` 305.29 crore and ` 350.41 crore respectively.

State's share of Central Taxes

13. It is one of the main sources of the State's Exchequer. During 2013-14, Budget Estimate is pegged at ` 935.66 crore under Central pool of divisible taxes which is an increase of almost 15 per cent of the 2012-13 Budget Estimate. At the same time, projected annual average growth rate of Share of States in Central Taxes is assumed at 12.75 per cent in line with Planning Commission of India's assumption for State's growth rate. Keeping in mind this assumption, State's share of Central Taxes for 2014-15 is estimated at ` 1055.00 crore. For 2015-16, the same level of ` 1055.00 crore is simply maintained for the time being.

Grants from Central Government

14. 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 2013-14 is ` 3615.51 crore which is an increase of 1.47 per cent over last year target. 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 2014-15 and 2015-16 are placed at ` 3977.06 crore and ` 4374.77 crore respectively.

15. Plan Grants mainly comprises Normal Central Assistance, Special Plan Assistance, Additional Central Assistance etc...We hereby 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. In line with this forecast, allocation of Normal Central Assistance for 2013-14 is estimated at ` 925.30 crore, Special Plan Assistance/Special Central Assistance is put at ` 700.00 crore and Additional Central Assistance at ` 487.46 crore. Aggregating all these together, the Budget estimates of Plan Grants during 2013-14 is ` 2451.08 crore. Following the above assumptions, the projection of Plan Grants for 2014-15 and 2015-16 are estimated at ` 2696.19 crore and ` 2965.81 crore respectively.

16. 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 2013-14 is placed at ` 1164.43 crore. In line with the projected growth rate of Thirteenth Finance Commission, Non-Plan Grants for 2014-15 and 2015-16 are projected at the same rate so that they are placed at ` 1280.87 crore and ` 1408.96 crore respectively.

2. Capital Receipts

Borrowings

17. The borrowing limit of the State is calculated as per the formula laid down in para 9.85 of Thirteenth Finance Commission report. In other words, the borrowing capacity of the State is worked out based on the extent of fiscal deficit it will possess in that particular year. Thirteenth Finance Commission forecasted the State finance to improve its financial condition by reducing the fiscal deficit year by year. Expected fiscal deficit for 2013-14 is 4.1 per cent of corresponding GSDP. In absolute terms, it is around ` 377.23 crore. Meanwhile, expected fiscal deficit for 2014-15, which is also the

ultimate target of Thirteenth Finance Commission, is 3 per cent of corresponding GSDP. Since the corresponding GSDP has not yet been worked out, the projected borrowing limit for 2014-15 and 2015-16 are placed at the same level of 2013-14.

Loans and Advances from the Central Government

18. Borrowings under Loans & Advances from Central Government for 2013-14 solely consists of loan components of EAP which is estimated at ` 15.34 crore. By maintaining the same size for the financial years 2014-15 and 2015-16, Loans and Advances from the Central Government is projected at ` 15.34 crore for these two years.

Recoveries of Loans and Advances

19. 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 2013-14 is ` 27.54 crore and the projected amount for the predicted years of 2014-15 and 2015-16 shall be of the same size at ` 27.54 crore.

Public Account Borrowings

20. 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 2013-14 is estimated at ` 61.00 crore and the same amount will be the projected amount for the forecast years of 2014-15 and 2015-16.

3. Total Expenditure

Revenue Account

21. The main components of Revenue Account are salary and its related items, contingent expenditure, Pension etc... Owing to implementation of The Mizoram (Revision of Pay Rules), 2010 in line with Sixth Pay Commission recommendation, the Revenue Account of the Consolidated Fund of the State is under a serious threat and may even produce negative result unless monitored and adequately controlled. However, it is not that the Government spares an effort towards reducing Revenue expenditure. In reality, it spares none. Meanwhile, 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 2013-14 is estimated at ` 4657.61 crore against the Budget Estimates of ` 4168.71 crore during 2011-12. Keeping the annual increment of 10 per cent, the total revenue expenditure for 2014-15 and 2015-16 are forecasted at ` 5123.27 crore and ` 5635.60 crore respectively.

Capital Account

22. Even though Thirteenth Finance Commission has tightened the fiscal maneuverability of the State on capital expenditure by stipulating the projected fiscal deficit within its award period, the generosity of Central Government enhances the capital fiscal space of the State to a large extent. In particular, plan fund injected from Central Government to the State is astoundingly satisfactory. More so, fund received under AIBP, RKVY and NLUP deserve a special mention. However, the borrowing limit is shrinking to the extent of 4.1 per cent of our GSDP for the ensuing financial year. Hence, a better and more focused management is required to handle the Open Market Borrowing in 2013-14. However, based on the devolution of resources recommended by Thirteenth Finance Commission and instruction given by Planning Commission of India, the capital expenditure for 2013-14 is estimated at ` 587.72 crore and for 2014-15 and 2015-16, the same is projected at ` 1265.35 crore and ` 812.85 crore respectively.

C. ASSESSMENT OF SUSTAINABILITY RELATING TO

(a) The balance between revenue receipts and revenue expenditure

23. It is the ceaseless endeavor of the State government to augment its own resources to improve its fiscal account. For this, user charges on water tariff have been hiked, rate of various taxes in Land Revenue & Settlement Department have also been increased. A quarterly review meeting on the performance of selected Departments has also been held regularly to oversee and monitor the collection of Revenue receipts. This action bears a fruitful result and an improvement is perceived from the fiscal 2012-13. Besides, State's share in Central Taxes and Non-Plan Revenue Gap Grant also improve to a certain extent. As such, it is anticipated that revenue surplus would be maintained during a financial year 2013-14 at ` 381.81 crore. For 2014-15 and 2015-16, the Revenue Surplus is projected at ` 469.17 crore and ` 437.37 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

24. It is the top priority of the State Government to enhance and improve the infrastructural development of the State. It is always said that the State is lagging behind other States in many sectors particularly in infrastructure components. Keeping in mind this observation, emphasis has been bestowed on the generation of durable and productive assets. It is therefore the commitment of the State Government to earmark whatever capital receipts it receives for creation of durable assets and capital formation. Anyway, the Revenue account has always been in surplus since 2003-04 and since then, capital receipts is used only for generation of productive assets.

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

25. In order to save a huge outgo from the State exchequer on account of pension payments, State Government has launched New Defined Contributory Pension Scheme 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. Hence, after development of complete database on pension, estimation of expenditure on pension payment shall be carried out on actuarial basis. However, development of pension database has not yet been finalized till today. As such, we are compelled to carry out the present estimation on the basis of trend growth rate.

26. Due to non-coverage of major portion of Government employees by this New Defined Contributory Pension Scheme, amount for pension payments has not yet gone done for the moment against the initially anticipated. In order to take care of this development on pension, the trend growth rate (TGR) for estimation of pension payment is fixed at 15.61 per cent. Pension payments for 2013-14 is estimated at ` 250.17 crore against the Budget Estimates of ` 238.72 crore during 2012-13. 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:

2014-15	-	` 289.22 crore
2015-16	-	` 334.38 crore
2016-17	-	` 386.57 crore
2017-18	-	` 446.91 crore
2018-19	-	` 516.67 crore
2019-20	-	` 597.32 crore
2020-21	-	` 690.56 crore
2021-22	-	` 798.35 crore
2022-23	-	` 922.97 crore
2023-24	-	` 1067.05 crore

27. Data on receipts and expenditure in the State's finance over the medium term framework covering the period 2011-12 to 2015-16 is shown in the table appended herewith.

TABLE

(Rs. in crore)

Sl. No.	Item of Receipt / Expenditure	2011-12 (Actuals)	2012-13 (Budget Estimates)	2012-13 (Revised Estimates)	2013-14 (Budget Estimates)	Targets for next Two Years	
						2014-15	2015-16
						(Proj)	(Proj)
1	Revenue Receipts	4011.81	4796.48	5259.69	5039.42	5592.44	6072.97
	(a) Tax-Revenue	178.67	190.42	202.08	222.25	255.09	292.79
	(b) Non-Tax Revenue	168.03	229.43	206.75	266.00	305.29	350.41
	(c) State's share of Central Taxes	827.78	813.71	792.64	935.66	1055.00	1055.00
	(d) Grants from Central Government	2837.33	3562.92	4058.22	3615.51	3977.06	4374.77
	(i) Non-Plan Grants	856.50	1164.36	1164.36	1164.43	1280.87	1408.96
	(ii) Plan Grants	1980.83	2398.56	2893.86	2451.08	2696.19	2965.81
2	Capital Receipts -	609.28	481.94	525.39	474.01	474.01	474.01
	(a) Borrowings on account of Internal Debt of the State Government (of which W&MA)	443.47	347.25	390.70	370.13	370.13	370.13
	(b) Loans and advances from the Centre	22.28	9.64	9.64	15.34	15.34	15.34
	(c) Recovery of loans and advances	27.80	26.55	26.55	27.54	27.54	27.54
	(d) Borrowings from Public Account (Net)	115.73	98.50	98.50	61.00	61.00	61.00
3	Total Expenditure	4538.46	5176.25	6105.86	5245.33	6388.72	6448.45
	(a) Revenue Account	3723.85	4168.71	4673.04	4657.61	5123.37	5635.60
	(i) Interest Payments	273.79	242.00	248.37	248.49	273.34	300.67
	(ii) Salaries	1150.09	1483.15	1482.72	1617.13	1778.84	1956.72
	(iii) Pensions	298.36	238.72	240.17	240.17	264.19	290.61
	(iv) Others	2001.61	2204.84	2701.78	2551.82	2807.00	3087.60
	(b) Capital Account	814.61	1007.54	1432.82	587.72	1265.35	812.85
	(i) Public Debt-Repayment of borrowings (of which W&MA)	286.25	87.60	257.51	104.72	734.05	228.42
	(ii) Loans and advances	33.52	31.20	31.20	31.20	34.32	37.75
	(iii) Capital Outlay	494.84	888.74	1144.11	451.80	496.98	546.68
	(iv) Appropriation to Contingency Fund	-	-	-	-	-	-
4	GSDP	6991.40	8018.96	8018.96	9200.71	10560.27	12121.08
5	Outstanding liabilities of the State Government	3999.77	4362.31	4241.10	4582.85	4899.85	5263.85