सत्यमेव जयते

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
2009-2010

(As laid before the Mizoram Legislative Assembly on 15th October, 2009)

FORM-II (a)
(See Rule 4)

FISCAL POLICY STRATEGY STATEMENT

A. FISCAL POLICY OVERVIEW:

1. The fiscal position of the Government of Mizoram may be traced back to the late nineties and early twenties in which the State finance experienced a tight fiscal position and lapsed into overdrafts and even faced stoppage of payment from the Treasuries on a number of occasions. However, the efforts of the State Government in the fiscal consolidation were triggered by the turn of the award period of the Eleventh Finance Commission in 2000-01. The Fiscal Reforms Facility (FRF) was linked with the States drawing up a Medium Term Fiscal Reforms Programme (MTFRP). The State's own efforts coupled with relatively improved devolution of central transfers had considerably helped in the fiscal consolidation process. The State had, for the first time attained a revenue surplus in 2003-04 and shows improving trends.

2. The own tax revenue of the State which was mere **1.61 per cent** of the GSDP in 2004-05 had followed a secular growth. With the implementation of VAT in the State from the 1st April, 2005, the collection of State's own tax revenues has received further impetus and improved to **2.02 per cent** of GSDP in 2005-06 and to **2.27 per cent** in 2007-08. It attained a level of **2.48 per cent** in 2008-09 (Pre-Actual) and estimated at **2.73 per cent** in 2009-10. However, major contribution of State's own revenue receipts continues to come from the State's own non-tax revenue which is placed comfortably above **3 per cent** of the GSDP. The revenue surplus has been built up contributing towards creation of fiscal space for capital expenditure. The fiscal deficit which had been alarmingly high over the years, has been under check and has shown declining trend as percentage to GSDP. The outstanding debt liability which is very high as a percentage of GSDP has also been given special focus so that debt stock relative to GSDP and revenue receipts shows declining trend. The debt servicing liability, particularly interest payment as percentage of revenue receipts has also been contained within reasonable levels. Attempts have been made to slowly reduce weight-average interest rate which will in turn reduce interest payment burden. With the proposed pre-payment of high cost loans under Structural Adjustment Loan, the debt stock as well as interest payments are expected to show positive results in a few years.

3. With the commencement of the award period of the Twelfth Finance Commission (TFC) in 2005-06, the fiscal reforms process received further impetus by institutionalizing the fiscal reforms process and by enacting Fiscal Responsibility and Budget Management (FRBM) Act in 2006-07 linked with the Debt Consolidation and Relief Facility (DCRF) (2005-10)'.

4. Enactment of Fiscal Responsibility Legislation in 2006 was followed by a consolidation of all block loans of the Government of Mizoram in 2006-07; In terms of DCRF, all block loans released up to 31.03.2004 and outstanding as on 31.03.2006 amounting to **Rs. 258.55 crore** was consolidated by the Ministry of Finance, Government of India and rescheduled for a fresh term of twenty years and the interest rate reset at **7.5 per cent.** The benefit in the form of debt write-off is also part of the package. This measure of incentivising the States has a favourable impact to the State Government resulting in multiple effect of lowering interest payments, lowering the repayment of loans and the benefit of debt waiver. The benefits that we had reaped so far are detailed below:

5. As a result of the loan consolidation the State has been benefited by lowering of interest on those loans and the resultant lower interest payments. The amount of interest relief accrued during 2006-07 was **Rs. 10.67 crore**. Similarly, interest relief accrued in the following years as follow: 2007-08-**Rs. 9.78 crore**, 2008-09-**Rs. 9.30 crore.**

6. Apart from relief on account of consolidation, the State has been benefited on account of debt write-off. The State earned the benefit of write-off of repayment dues for the year amounting to **Rs. 12.93 crore** in 2006-07. Debt write-off of **Rs. 12.93 crore** was also available in 2007-08. Likewise, the State Government earned a debt write-off of **Rs. 12.93 crore** in 2008-09.

7. Besides the above, the Government is benefited by lower repayments as a result of loan consolidation. The benefits as a result of lower repayments during the award period of TFC (2005-10) is estimated at **Rs. 11.49 crore**.

8. The fiscal position in 2007-08 witnessed a sharp deterioration in the final accounts. The revenue surplus deteriorated to **Rs. 131.35 crore** which is less than 2006-07 by **Rs. 120.30 crore**. The fiscal deficit also deteriorated to **Rs. 391.49 crore**. The main reason for deterioration in the fiscal position in 2007-08 is mainly due to short booking of revenue receipts on account of grants-in-aid from Central Government in the Accounts of 2007-08. Besides, the fiscal shock was also partly due to purchase of rice at economic cost resulting in expenditure on account of subsidies in the differential price between economic cost and issue price. However, had the short booking not happened in

2007-08, the fiscal position would be well within the fiscal correction path drawn up by the State Government.

9. Budget Estimates of total revenue receipts during 2008-09 is **Rs. 2217.87 crore**. The Revised Estimates put the revenue receipts at **Rs. 2701.75 crore**. In the Pre-actual 2008-09, the total revenue receipt stood at **Rs. 2645.65 crore**. Receipts on account of Tax Revenues during 2008-09 is **Rs. 478.01 crore** of which State's Own Tax Revenues is **Rs. 94.62 crore** and Share in Central Taxes is **Rs. 383.39 crore**. Shortfall in collection is due to devolution of lesser amount of Share in Central Taxes.

10. Collection of State's Own Tax Revenues show a secular growth path after introduction of VAT from 01.04.2005. Collection of State's Own Tax Revenues in 2005-06 is **Rs. 55.06 crore** , 2006-07- **Rs. 67.62 crore**, 2007-08 - **Rs. 77.51 crore** and 2008-09 (Pre-Actual)- **Rs. 94.62 crore**. Corresponding growth rates respectively stood at **39.18 per cent**, **22.81 per cent**, **14.64 per cent** and **22.06 per cent** with average growth rate of **24.67 per cen**t during the last 4 years. With average growth of GSDP at current prices at **11.61 per cent** during the same period, State's Own Tax Revenues grow with buoyancy of **2.12** which is much higher than the TFC's projected Own tax buoyancy of **1.1** for the State of Mizoram.

11. Budget Estimates for Non-Tax Revenue Receipts in 2008-09 stood at **Rs. 1715.50 crore** which was revised to **Rs. 2179.13 crore** in the Revised Estimates. The Pre-Actual figure put it at **Rs. 2176.64 crore**. Of this, State's Own Non-Tax Revenues is Rs. **158.16** crore and Grants-in-aid from Central Government is **Rs. 2018.48 crore**.

12. Budget Estimates of Total Expenditure for 2008-09 is **Rs. 2374.67 crore**. Revised Estimates put the total expenditure at **Rs. 3101.49 crore**. Pre-actual of total expenditure turned out at **Rs. 2782.10 crore** of which Plan Expenditure is **Rs. 1108.30 crore** and Non-Plan Expenditure is **Rs. 1673.80 crore**. Revenue expenditure is **Rs. 2323.52 crore**, capital expenditure is **Rs. 441.17 crore** and expenditure on loans & advances is **Rs. 17.41 crore**.

13. The fiscal consolidation process of the State continued to receive shocks during 2008-09 due to two main factors. One is the reduction in the devolution of Central Share of Taxes much below the budgeted level. While the budgeted amount of Share in Central Taxes is **Rs. 427.81 crore**, the actual amount devolved is only **Rs. 383.39 crore** as per the Pre-actual figure of the Accountant General for March (Supplementary), 2009. This is the indirect effect of the global economic recession which started in 2008 in which the Central Government was compelled to announce a series of measures for offsetting the

adverse effects in the Indian Economy which includes measures towards tax concessions in some major taxes. Second is the requirement of the State Government incurring huge subsidies towards purchase of rice. With the reduction of the PDS Quota of the State by the Government of India, the Government had been compelled to purchase rice out of additional quota of economic cost in which the differential cost of rice between economic cost (Rs. 2140.00 per quintal) and issue price (at Rs. 930.00 per quintal) had to be borne by the Government resulting in fiscal shock. The total expenditure of the Government on account of this was estimated at **Rs. 85.33 crore** in the Revised Estimates for 2008-09. The Pre-Actual for 2008-09 put the figure for unrecovered cost of rice at **Rs. 74.45 crore**.

14. However, even with the fiscal shocks iterated above, the finances of the State Government in 2008-09 presented a favourable picture. The revenue surplus is a record high surplus of **Rs. 331.13 crore** and fiscal deficit is also at a record lowest ever at **Rs. 102.59 crore**. This could be attributed mainly to the back booking of receipts for the year 2007-08 in the accounts of 2008-09.

B. FISCAL POLICY FOR 2009-10.

15. Mizoram FRBMA 2006, as amended in 2009 requires that the State Government should eliminate revenue deficit and reduce the fiscal deficit to **3 per cent** of GSDP by 2010-11 while the earlier stipulation in the original Act was reduction of fiscal deficit to **3 per cent** by 2008-09. The Ministry of Finance, Government of India has also relaxed the targeted fiscal deficit for 2009-10 to **4 per cent** of GSDP. However, the effects of global recession in the Indian economy resulting in various tax concessions and higher public spending requires the Government to review the extant arrangements and eliminate the revenue deficit and reduce the fiscal deficit to **3 per cent** of GSDP by 2008-09 end. The Government of Mizoram, however, has already eliminated its revenue deficit since 2003-04. Hence, the major focus of the State's fiscal policy strategy is to bring down the fiscal deficit to the targeted level within the stipulated time frame. This can be achieved by adopting a policy of reduction of expenditure and contain within the optimum level of resources to minimize the fiscal gap. However, the requirement of expenditure presses us to spend more for infrastructure and other developmental needs. So, with limited scope of expansion of own resources, focus will be directed towards finding the required resources from alternative resources like external assistance in the form of EAP, private capitals in the form of PPP etc.

16. Issues of serious challenges confronting the Government in 2009-10 will include the task of successfully taking off its electoral promises of the Ministry

in development calling for increased plan Expenditure. Besides, the flagship programme in 'New Land Use Policy (NLUP)' also requires separate and distinct identity of our State's Plan Scheme over the medium term. Thus, the Government's fiscal policy will revolve round the need to successfully crush the developmental bottlenecks and lay the stone for socio-economic development of the rural masses. This will call for strategic planning of working out an optimum mix of resource mobilization and increased expenditure.

17. Another issue of challenge will be the fiscal shock on account of the revision of pay of the employees in line with the Sixth Central Pay Commission. The expenditure on account of this will, no doubt bring about increased Revenue Expenditure on Plan and Non-Plan Accounts. However, the Government will implement the pay revision for which the required expenditure has been provided in the Budget. However, with the coming of the award period of the Thirteenth Finance Commission from 2010-11 and with the expected higher level of transfer of various resources, we expect that the increased expenditure on account of the Sixth Pay Revision would slowly be absorbed in the overall expenditure and the shocks gradually minimized.

18. The fiscal shock that had persisted in 2007-08 and 2008-09 on account of food subsidy will continue to be the reason for fiscal imbalance in 2009-10 as well. Since the Government could not risk drastic reduction of supply of rice from the Food Corporation of India due to the shortage of food supply in the State, this will need to be carried on for a few more years. Thus, even with the losses that the Government will have to bear in food trading, we are under compulsion to continue the food subsidy till such time the Government could make alternative arrangements.

19. The Government will also face the downward estimation of the State's share in Central Taxes in 2009-10. While the estimated amount in 2007-08 was **Rs. 340.89 crore**, the actual amount devolved to the State Government was **Rs. 363.36 crore**. In 2008-09 the estimated amount was **Rs. 427.81 crore**, and the actual amount devolved was **Rs. 383.39 crore**. The reduction in the Share of Taxes in 2008-09 was due to the many tax concessions announced by the Central Government in the aftermath of the global economic recession. Even in 2009-10 also, the amount estimated in the Interim Union Budget in February, 2009 was **Rs. 409.78 crore** which went down further to **Rs. 393.40 crore** in the Union Regular Budget in July, 2009. Thus, even at the Budget Estimates level, the State's share of Central Taxes in 2009-10 decreases from 2008-09 by **Rs. 34.41 crore.**

20. Another item of expenditure that the State Government will have to meet on the Consolidated Fund will be expenditure on account of one-time outgo for

building up of the Contingency Fund of the State. With the enactment of the Contingency Fund of Mizoram Act, 2009 the State Government has to put a corpus revolving fund of **Rs. 200.00 crore** to meet the various unforeseen expenditure of the Government. Since this one-time expenditure has to be met out of the Consolidated Fund, the fiscal deficit has to deteriorate by the corresponding amount.

21. The total Revenue Receipts has been estimated at **Rs. 3009.21 crore**. Tax Revenues has been estimated at **Rs. 509.69 crore** of which State's Own Tax Revenues is **Rs. 116.29 crore** which is **22.90 per cent** above the Pre-Actual 2008-09. Share in Central Taxes has seen downward estimation at **Rs. 393.40 crore** in lines with the Union Regular Budget in July, 2009. State's Own Non-Tax Revenues is estimated at **Rs. 181.14 crore** and Grants-in-aid from the Central Government at **Rs. 2318.38 crore**.

22. The Non-Plan Expenditure of the State has been estimated at **Rs. 1777.49 crore** in 2008-09 (RE) and which stood at **Rs. 1673.80 crore** in the Pre-Actual. The Non-Plan Expenditure is again estimated at **Rs. 2211.31 crore** in 2009-10 (BE). The increase in estimated Non-Plan Expenditure is attributable to the increase in salary expenditure due to implementation of the Sixth Pay Revision. This is committed in nature due to payment of salaries, pension and interest payment.

23. The State's Annual Plan for 2009-10 has been agreed to at **Rs. 1250.00 crore**. With other plan expenditure under various grants and revalidated amounts of the previous year, the total plan expenditure has been estimated at **Rs. 1329.18 crore**. Taken together with expenditure on various schemes of CSS, CPS, NEC, NLCPR etc., the total plan expenditure is estimated at **Rs. 1476.08 crore**. Thus, the Total Expenditure taken together for 2009-10 is estimated at **Rs. 3687.39 crore**.

24. Thus, with the various expenditure commitments indicated above, it will be possible to keep the revenue surplus at **Rs. 177.52 crore** and the fiscal deficit at **Rs. 411.51 crore** which is **8.46 per cent** of GSDP in 2009-10 as per the comparable GSDP series estimated and adopted by the TFC.

25. We are now in the last year of the Twelfth Finance Commission award period. The serious challenge to the State remains to balance the receipts and expenditure and be able to confine within the fiscal reforms programme drawn up by the Twelfth Finance Commission. The need to find alternative resource compelled the Government of Mizoram to look for the support of the multilateral institutions for finding resources to meet the developmental needs of the State. The ADB assisted project *'North-Eastern Region Capital Cities*

Development Investment Programme (NERCCDIP)' with an estimated cost of **$68 million** will be implemented from the current year. The final loan agreement was signed on 04.08.2009 and will cover various urban improvement activities of Aizawl city during over a period of 6 years. Another ADB assisted Programme *'Mizoram Public Resource Management Programme (MPRMP)'* which was drawn up and furnished to the Ministry of Finance for assistance from the Asian Development Bank (ADB) in 2007-08 finally got through and the Loan Agreement for **$100 million** was finally signed on 17.09.2009. The amount of assistance as per SAL modalities would be, *inter alia*, utilized for prepayment of high cost loans, to protect priority sector expenditure particularly health and education, restructuring of public sector undertakings, better governance and related reforms and improvements in fiscal management by capacity building. MPRMP would ideally be implemented during the 3-year period. The ADB assistance for these programmes will be transferred to the State Government by the Government of India in the form of **90 per cent** grant and **10 per cent** loan.

26. One of the guiding principles in the fiscal management continues to be attainment of the objective of FRBM and continue availing the benefits available under DCRF. Interest relief of **Rs. 8.33 crore** debt write-off of **Rs. 12.93 crore** estimated in 2009-10 will help the Government create fiscal space.

27. The major fiscal policy initiatives that the Government will pursue in 2009-10 are laid down in brief below:

(1) Tax Policy:

28. It will be the endeavour of the Government to continuously improve the Tax-GSDP ratio. In 2007-08, the tax-GSDP stood at **2.27** and in 2008-09 (Pre - Actual), the tax-GSDP ratio improved to **2.48** which is a perceptible improvement in the State's own tax revenues. We still expected further improvement in the ratio by adopting the measures outlined herewith. During 2008-09, we had set a very ambitious target of tax revenues by upward revision of the estimates for various tax revenues in the Budget Estimates. While the Budget Estimates was **Rs. 74.56 crore** only, we had revised it to **Rs. 94.82 crore** in the Revised Estimates based on the Trend Growth Rate and the actual collection at mid-year level. This revision represents **27 per cent** increase over the Budget Estimates. The Pre-Actual collection put the total collection at **Rs. 94.62 crore** despite the tax concession on VAT for POL. It is clear that the State Government could achieve a higher collection even with the existing rates by increasing the collection efficiency and improving the tax administration. In 2009-10 also, we are focusing the attention more on increasing the tax collection efficiency without much change in the tax rates and structure. With

the estimated collection of State's Own Tax Revenues at **Rs. 116.29 crore**, the tax-GSDP ratio is **2.87**. This trend of improvement in the tax-GSDP ratio is quite encouraging and the Government will continue the process so that the tax-GSDP improves to a certain optimum level. Towards improving the tax collection efficiency and better tax compliance, the State Government will pursue the following measures in 2009-10:

(a) We will start implementation of the restructuring of Taxation Department by carrying out the restructuring package drawn up by the Department so that the tax administration is improved to bring about improvement in tax collection efficiency. The process of VAT auditing will also be institutionalized by introducing VAT Audit Manual and by intensive capacity building of the tax officials.

(b) Land revenue will also be focused with specific reference to restructuring of the Department, streamlining the tax collection system and improving the land record management. This will be coupled with exhaustive process of capacity building of the officials involved in administration of land revenue and computerization of land records. This is expected to bring about higher collection of land revenue as well as realization of the arrears accumulating over the years.

(c) Taxes on account of motor vehicles will also be taken up in the form of capacity building of the officials involved and introducing the Management Information System and by improving the tax collection system of various taxes. This is expected to bring about overall improvement in the tax collection.

29. The above measures taken together will bring about the desired goal of increasing the tax-GSDP ratio and substantial improvement in State's own tax collection for years to come.

(2) Expenditure Policy:

30. In 2009-10, the Government has some expenditure commitments in the form of kick starting the process of development of the rural masses in the form of NLUP, creation of the required corpus fund for Contingency Fund of the State and the Sixth Pay Revision for the employees. With the above expenditure commitments in view, the Government is left with limited fiscal maneuverability. But within the limited scope, the Government will look at the outcome oriented expenditure so that the benefits of public spending reach the targeted population.

31. With this in view, the Government of Mizoram will take up serious expenditure management. The Treasuries of Mizoram will be fully computerized. Performance Budgeting will be put in place, the system of Medium Term Expenditure Framework (MTEF) will be put in place in selected Departments; the system of Project Appraisal, Monitoring and Evaluation will also be institutionalized. All these measures will be taken up over the medium term commencing from 2009-10. When fully put in place, these measures will bring along qualitative improvements in the public spending and the various processes involved in budgeting and tracking of expenditure.

32. The Government's continued efforts will be on for increased spending for capital investments for infrastructure. Efforts will be on to contain revenue expenditure and increasingly utilize resources for meeting capital expenditure.

(3) Borrowings and Other Liabilities, Lendings and Investments:

33. The Government's borrowing need to follow a conscious policy of containing the net borrowings so that the outstanding debt stock is maintained at a sustainable level relative to GSDP and Revenue Receipts. The FRBM Act, 2006 as amended in 2009 also provides that fiscal deficit will be contained to a level of **3 per cent** of GSDP in 2010-11. With that in view, the Government will contain the net borrowings at the targeted level of fiscal deficit so that the Government will not borrow in excess of the requirement for financing the fiscal deficit. With containment of the borrowings, the Government will pursue a policy of reducing revenue expenditure relative to the total expenditure so that enough resources could still be made available for capital investment.

34. The Government consciously moves to a policy towards slowly reducing the interest burden by moving towards reduction of weight average interest rates of the total borrowings. This will, in the long run have the effect of reducing the expenditure on account of interest payments. Accordingly, the Government will shift its borrowings in favour of low-cost RIDF loan of NABARD for creating infrastructure in the rural and agriculture sectors. While the weight-average interest rate of outstanding debt as 31.03.2008 was **8.01 per cent** been placed at **8.21 per cent** as on 31.03.2009.

35. The Government has been adopting a policy of on-lending to entities (PSUs/Societies/Agencies etc.) in contrast to the erstwhile practice of giving funds freely as grants-in-aid. Thus, the Government's lending during the last few years to the entities has built up the assets of the Government and returns in the form of repayment of loans and interest on such lending have become one source of income for the Government.

36. The Government's investments in the PSUs, Co-operative Banks and Societies etc. put the Government in a critical position as the Government is required to invest in the form of equity contributions even though there may not be much scope for receiving back the profits in the form of dividends. This has become one issue calling for consideration of the Government. The Government has, therefore decided to take a fresh look at the functioning of the PSUs under the Public Resource Management Programme. With the help of the PSE Restructuring Expert and with the support of the ADB, the Government will explore the various policy options over the medium term including the options of restructuring or of closure of PSEs.

(4) Consolidated Sinking Fund:

37. The Government builds up a sizeable amount in the Consolidated Sinking Fund accumulating as Reserve Fund of the State's Public Account. With the Revised Scheme coming in force from in 2006-07, the Government continues to invest funds in the Sinking Fund to generate funds for meeting its future repayment obligations loans contracted in the past. With the prescribed investment of **0.5 per cent** of outstanding liabilities of the State at year-end of the previous year, the Government invested **Rs. 15.00 crore** in 2008-09. The reserve fund that already accumulated as on 31.03.2009 is **Rs. 63.25 crore**. The Government will continue to invest in the Fund and an amount of **Rs. 15.50 crore** which is approximately **0.5 per cent** of estimated outstanding liabilities as on 31.03.2009 has been placed for augmentation of the fund during 2009-10.

(5) Contingent and Other Liabilities:

38. Managing the contingent liabilities has become the one issue of concern in the State's finance today. The Government of Mizoram has also been following a conscious policy of restricting the size of the contingent liabilities. The Government has been keenly pursuing a policy for streamlining the process of handling contingent liabilities in the State's finance. The Government has already put in place a Guarantee Redemption Fund in May, 2009 with initial corpus fund of **Rs. 50.00 lakh**. A ceiling was also laid down that fresh guarantees in a year should not exceed **3 per cent** of GSDP. With this initiative, the Government has slowly systematized borrowings under Government's guarantee cover.

(6) Levy of User Charges:

39. The Government recognizes that there are implicit subsidies in different forms in the services provided by it. While some of these may have positive impacts, many of such subsidies could bring about negative impacts and dependency of the general public in the Government on the one hand and inefficiency of public spending. The Government will slowly move towards levying of optimum level of user charges so that proving of services to the

people vis-à-vis levying of user charges for generating funds for maintenance of assets has become slowly sustainable in the long run.

C. STRATEGIC PRIORITIES FOR THE ENSUING YEAR:

40. The priority of the Government will continue to follow is the commitment to adhere to the stipulations in the FRBM Act successfully without sacrificing the requirements of expenditure for capital investments. However, the requirement of making one-time payment of fund for setting up the Contingency Fund of the State, Sixth Pay Revision of the employees and other developmental commitments will make it difficult to strictly adhere to path of reduction of fiscal deficit in 2009-10. However, we will be able to achieve the targeted fiscal deficit in 2010-11. The Government will also continue to pursue a policy of prudent fiscal management so that the process of fiscal consolidation is given a place without sacrificing its developmental commitments.

D. POLICY EVALUATION:

41. The year 2007-08 did not give us the desired results in terms of measurable fiscal indicators. However, had the short booking of receipts not happened in the accounts, the fiscal position would present the desired result in terms of measurable fiscal indicators; revenue surplus was **Rs. 131.35 crore** and fiscal deficit deteriorated to **Rs. 391.49 crore**. In the year 2008-09 (Pre-Actual) as per the Civil Accounts for March (Supplementary), 2009 the fiscal position of 2008-09 appears very much convincing and gives the desired results in terms of fiscal indicators. Revenue surplus is **Rs. 331.13 crore** and fiscal deficit comes down to **Rs. 102.59 crore**. The favourable fiscal indicators are mainly due to the back loading of receipts in the year 2007-08 into the accounts of 2008-09. A move towards elimination of the revenue deficit and corresponding generation of revenue surplus brought about increase of resources for capital expenditure as the level of borrowings for financing capital expenditure are put to a check by the requirement of containment of fiscal deficit. As a result, the Government's expenditure has been guided by the need to generate revenue receipts on the one hand and corresponding containment of revenue expenditure. However, with the limitations in containing the revenue expenditure, the Government's policy of finding alternative sources for funding development investments have slowly paid dividends. At the overall, the fiscal management principles in the post-FRBM are strongly guided by the provisions of the Act and the targets set out therein and have slowly brought about improvements in expenditure management.

E. RATIONALE FOR POLICY CHANGES:

42. The need to improve the State's own revenues is the pressing need of the present time so that the State Government may be able to cope up with the requirement of surging expenditure and for meeting its developmental commitments. Towards this end, focus has been laid towards Public Resource Management, Capacity Building and Tax & Non-Tax Reforms so as to achieve the desired objectives. Correspondingly, the revenue expenditure needs to be contained so as to make revenues available for generation of capital assets.

43. In the light of the changes in the fiscal policy and management during the last few years, the Government of Mizoram has redrawn a Fiscal Correction Path in the light of the 2006-07 (Accts.), 2007-08 (Accts.), 2008-09 (BE) 2008-09 (RE) and 2009-10 (BE) including projections for the next two years in a format as outlined by the Ministry of Finance, Government of India in its guidelines for implementation Debt Consolidation and Relief Facility recommended by the 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	***2006-07 (Actual)***	***2007-08 (Actual)***	***2008-09 (BE)***	***2008-09 (RE)***	***2009-10 (BE)***	***2010-11 (Proj)***	***2011-12 (Proj)***
A	**STATE REVENUE ACCOUNT :**							
1	Own Tax Revenue	67.62	77.51	74.56	94.82	116.29	140.25	169.14
2	Own Non-Tax Revenue	133.38	130.30	117.27	161.41	181.14	201.47	224.07
3	***Own Tax+Non Tax Revenue (1+2)***	***201.00***	***207.81***	***191.83***	***256.23***	***297.43***	***341.72***	***393.21***
4	Share in Central Taxes & Duties	288.05	363.36	427.81	427.81	393.40	454.39	525.94
5	Plan Grants	837.08	789.99	910.73	1256.33	1313.50	1382.02	1457.39
6	Non-Plan Grants	642.82	678.58	687.50	761.38	1004.88	1099.41	1110.46
7	***Total Central Transfer (4 to 6)***	***1767.95***	***1831.93***	***2026.04***	***2445.52***	***2711.78***	***2935.82***	***3093.79***
8	***Total Revenue Receipts (3+7)***	***1968.95***	***2039.74***	***2217.87***	***2701.75***	***3009.21***	***3277.54***	***3487.00***
9	Plan Expenditure	595.80	648.99	664.43	873.93	985.95	985.95	985.95
10	Non-Plan Expenditure	1121.49	1259.40	1368.21	1589.03	1845.74	1986.05	2135.00
	of which							
11	Salary Expenditure	462.51	588.26	708.38	778.28	1034.77	1122.73	1218.16
12	Pension	77.31	97.14	106.01	106.01	148.41	171.58	198.36
13	Interest Payments	239.75	208.01	203.13	229.29	239.90	276.54	289.84
14	Subsidies - General	-	-	-	-	-	-	-
15	Subsidies - Power	-	-	-	-	-	-	-
16	***Total Revenue Expenditure (9+10)***	***1717.29***	***1908.39***	***2032.64***	***2462.96***	***2831.69***	***2972.00***	***3120.95***
17	Sal+Interest+Pensions (11+12+13)	779.57	893.41	1017.52	1113.58	1423.08	1570.85	1706.36
18	as % of Revenue Receipts (17/8)	39.59	43.80	45.88	41.22	47.29	47.93	48.93
19	***Revenue Surplus/Deficit (8 -16)***	**251.66**	**131.35**	**185.23**	**238.79**	**177.52**	**305.54**	**366.05**

(Rupees in Crore)

	Items	2006-07 (Actual)	2007-08 (Actual)	2008-09 (BE)	2008-09 (RE)	2009-10 (BE)	2010-11 (Proj)	2011-12 (Proj)
B	**CONSOLIDATED DEBT :**							
1	Outstanding debt and liability	2810.45	3062.46	3233.74	3276.08	3368.38	3530.38	3710.38
2	Total Outstanding guarantee	130.38	131.97	196.31	118.26	118.26	118.26	118.26
	[of which guarantees on account of budgeted borrowing and SPV borrowing]							
C	**CAPITAL ACCOUNT :**							
1	Capital Outlay	466.44	544.24	332.95	621.14	393.87	472.38	550.89
2	Disbursement of Loans and Advances	0.25	6.12	9.07	17.38	25.17	25.17	25.17
3	Recovery of Loans and Advances	24.01	27.52	25.30	28.22	30.01	30.01	30.01
4	Other Capital Receipts	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5	Transfer to Contingency Fund	-	-	-	-	200.00	-	-
D	**GROSS FISCAL DEFICIT :**	-191.02	-391.49	-131.49	-371.51	-411.51	-162.00	-180.00
	$[(A_8+C_3+C_4)-(A_{16}+C_1+C_2+C_5)]$							
E	**GSDP (Rs. crs.) at current prices**	3059.47	3411.66	3809.16	3809.16	4266.73	4778.74	5352.19
	Actual/Assumed Growth Rate (%)	10.70	14.29	11.65	11.65	12.01	12.00	12.00
F	**INDICATORS AS % OF GSDP**							
1	Own Tax Revenue (A1/E)	2.21	2.27	1.96	2.49	2.73	2.93	3.16
2	Own Non-Tax Revenue (A2/E)	4.36	3.82	3.08	4.24	4.25	4.22	4.19
3	Total Central Transfer (A7/E)	57.79	53.70	53.19	64.20	63.56	61.44	57.80
4	Total Revenue Expenditure (A16/E)	56.13	55.94	53.36	64.66	66.37	62.19	58.31
5	Revenue Surplus/Deficit (A19/E)	8.43	3.85	4.86	6.27	4.16	6.39	6.84
6	Gross Fiscal Deficit *	-5.37	9.91	3.00	8.48	8.46	3.00	3.00
7	Outstanding Debt and Liabilities (B1/E)	91.86	89.76	84.89	86.01	78.95	73.88	69.32

* GSDP estimated by TFC taken into account for calculating Gross Fiscal Deficit as a percentage of GSDP: TFCs comparable series are 2006-07 - Rs. 3557.00 cr., 2007-08 - Rs. 3949.00 cr., 2008-09 - Rs.4383.00 cr. and 2009-10 - Rs. 4865.00 cr. By application of the nominal growth rates of 11%, the GSDP for the next two years are projected as 2010-11 - Rs. 5400.00 cr. and 2011-12 - Rs. 5994.00 cr.

FORM D - 1

(See Rule 9)

SELECT FISCAL INDICATORS

	Items	2007-2008 (Actuals)	2008-2009 (RE)
1	Gross Fiscal Deficit as Percentage of GSDP *	9.91	8.48
2	Revenue Deficit (-)/Surplus (+) as Percentage of GSDP	3.85	6.27
3	Revenue Deficit (-)/Surplus (+) as Percentage of TRR	6.44	8.84
4	Total Liabilities - GSDP Ratio (%)	89.76	86.01
5	Total Liabilities - Total Revenue Receipts (%)	150.14	121.26
6	Total Liabilities - State's Own Revenue Receipts (%)	1473.61	1278.52
7	State's Own Revenue Receipts - Revenue Expenditure (%)	106.88	109.70
8	Capital Outlay as Percentage of Gross Fiscal Deficit	-139.02	-167.20
9	Interest Payment as Percentage of Revenue Receipts	10.20	8.49
10	Salary Expenditure as Percentage of Total Revenue Receipts	36.01	35.24
11	Pension Expenditures as Percentage of Total Revenue Receipts	4.76	3.92
12	Non-Developmental Expenditure as Percentage of Aggregate Disbursement	30.94	29.11
13	Gross Transfer from the Centre as Percentage of Aggregate Disbursement	70.39	76.44
14	Non-Tax Revenue as Percentage of Total Revenue Receipts	78.39	78.63

* GSDP estimated by TFC taken into account for calculating Gross Fiscal Deficit as a percentage of GSDP

FORM D - 2

(See Rule 9)

A. COMPONENTS OF STATE GOVERNMENT LIABILITIES						
Category	Raised during the Fiscal Year		Repayment/Redemption during the Fiscal Year		Outstanding Amount	
	2007-08 (Actuals)	2008-09 (RE)	2007-08 (Actuals)	2008-09 (RE)	2007-08 (Actuals)	2008-09 (RE)
Market Borrowings	**146.86**	**156.18**	**18.15**	**29.97**	**837.79**	**964.00**
(a) Market Loans	146.86	156.18	18.15	29.97	837.79	946.00
(b) Power Bonds	-	-	-	-	-	-
Loans from Centre	**9.72**	**16.30**	**16.78**	**18.57**	**558.50**	**556.23**
(a) Block Loans	7.32	16.30	13.64	15.47	310.03	310.86
(b) Other Loans	2.40	-	3.14	3.10	248.47	245.37
Special Securities issued to the NSSF	**0.34**	**-**	**1.57**	**2.42**	**140.73**	**138.31**
Borrowings from Financial Institutions/Banks	**42.81**	**38.87**	**63.89**	**46.92**	**463.12**	**455.07**
(a) LIC	19.91	20.00	18.67	23.45	285.83	282.38
(b) NABARD	14.00	14.00	5.86	8.80	56.40	61.60
(c) NCDC	-	-	1.87	1.87	2.07	0.20
(d) Other Institutions	8.90	4.87	37.49	12.80	118.82	110.89
WMA/OD from RBI	**23.98**	**-**	**43.57**	**-**	**27.21**	**27.21**
Provident Funds, etc.	**273.72**	**187.87**	**101.45**	**87.72**	**1035.11**	**1135.26**
(a) Government Provident Fund	267.62	187.50	99.29	84.98	975.59	1078.11
(b) Insurance & Pension Fund	6.10	0.37	2.16	2.74	59.52	57.15
Other Liabilities	-	-	-	-	-	-
TOTAL	**497.43**	**399.22**	**245.41**	**185.60**	**3062.46**	**3276.08**

B. WEIGHTED AVERAGE INTEREST RATES ON STATE GOVERNMENT LIABILITIES

(Percent)

Category	Raised during the Fiscal Year		Outstanding Amount (End-March)	
	2007-08 (Actuals)	2008-09 (RE)	2007-08 (Actuals)	2008-09 (RE)
Market Borrowings				
(a) Market Loans	8.32	8.64	7.64	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	-	-	9.82	9.82
Borrowings from Financial Institutions/Banks	7.75	11.71	7.86	8.38
(a) LIC	8.62	9.00	7.66	7.74
(b) NABARD	6.50	6.50	6.78	6.67
(c) REC	-	13.91	8.97	10.28
(d) PFC	-	-	12.95	12.95
(e) NCDC	9.75	11.25	8.81	8.80
WMA/OD from RBI	-	-	-	-
Provident Funds, etc.	8.00	8.00	8.00	8.00
Other Liabilities	-	-	-	-
TOTAL	**8.14**	**9.26**	**8.01**	**8.21**

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, 07	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, 08	Col (4)/ Outstan-ding stock of SLR Borrowings (%)	Additions during the current year	Withdrawals from CSF during the current year	Outstanding balance in CSF at the end of current year/beginning of ensuing year Tentative 31st March, 09	Col. (S) Outstanding stock of SLR Borrowings (%)
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*
34.25	14.00	-	48.25	-	15.00	-	63.25	-

FORM D-4

(See Rule 9)

GUARANTEES GIVEN BY THE GOVERNMENT

Category	Maximun Amount Guarantee during the year 2008-2009 (Rs. In crore)	Outstanding at the begining of the year (Rs. in crore)	Additions during the year (Rs. in crore)	Reductions during the year (Rs. in crore)	Invoked during the year (Rs. Crore)		Outstanding at the end of the year 2007-2008 (Rs. Crore)	Guarantee Commission or Fee (Rs. Crore)		Remarks
					Discharge	Not Discharged		Receivable	Received	
1	2	3	4	5	*6*	*7*	*8*	*9*	*10*	*11*
Ordinary	66.93	131.97	11	24.71	-	-	121.26	-	-	Since Assesment of risk-weight is not yet finalised, guarantee fees/ commission is not yet charged on the guarantee of the Government

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	75	-	-
Medium Risk	50	-	-
Low Risk	25	-	-
Very Low Risk	5	-	-
Total Outstanding	-	-	-

Note : As assessment of Risk-Weight in the State Government's guarantees is not yet completed, default probability in the guaranteed loans could not be assigned.