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

FISCAL POLICY STRATEGY STATEMENT

A. FISCAL POLICY OVERVIEW:

1. In the literature of Indian fiscal federalism, the key features of the economic and fiscal scenario of most of the States have been slow economic growth and high dependence on Central support. Our State is also no exception to this group. It is therefore relevant to have a brief review and highlight on the performance of India economy during the past few years.

2. The Indian economy is expected to register a growth rate of 5.0 per cent in the fiscal 2012-13 in terms of Gross Domestic Product at factor cost at constant 2004-05 prices. The growth rate in 2011-12 was, however, 6.2 per cent. In view of the decadal average growth rate of 7.9 per cent during 2003-04 to 2012-13, the growth rate in the last two years is on the lower side. The reason for this economic slowdown could be ascribed to weakening industrial growth in the context of tight monetary policy followed by Reserve Bank of India and continued uncertainty in the global economy. The slowdown in the economy, particularly in the industry sector has entailed a lower-than budgeted growth in government revenues.

3. Besides, Indian economy is also pestered by elevated levels of crude prices and high levels of gold import which led to widening of trade gap and Current Account Deficit. Macroeconomic analysis of India during the years 2010-11 and 2011-12 therefore showed a trend of rising current account deficit, sticky inflation, falling saving rates, falling investments and even consumption. Consequently, the widening trade gap, falling investment and difficult economic situation both domestically and abroad have added to negative outlook on the Indian economy.

4. In the meantime, discouraging trends in economic growth called for immediate corrective measures and appropriate policy response. Fiscal consolidation by way of regulating deficits and cutting expenditure to create positive business environment was immediate need of the hour. Kelkar Committee was appointed to suggest "Roadmap for Fiscal Consolidation". Deliberating on various issues facing the economy, Kelkar Committee suggested a slew of measures to contain the rising trend of fiscal deficit. This Committee observed that deficit financing through domestic sources tends to be inflationary. At the same time, twin deficits hypothesis implies that, given a certain level of private savings, an increase

in fiscal deficit will have to be balanced by either a reduction in private investment or an increase in the current account deficit. Accordingly Red lines were drawn for the fiscal deficit at 5.3 per cent of GDP for 2012-13 and 4.8 per cent of GDP in 2013-14.

5. In line with these slew of reforms and measures suggested by Kelkar Committee, Central Government also imposed and pushed through a number of economic reforms measures like Foreign Direct Investment in various sector, Foreign Institutional Investment, hike in diesel prices, capping of subsidized use of liquefied petroleum gas cylinder etc… to revert to normal growth trajectory during current financial year. Budget Estimates is also being worked out keeping in mind these reforms measures however without losing sight of the concerns for welfare and progress of vulnerable groups.

6. Being a special category state, the State enjoys the concerns proffered by Central Government for progress of vulnerable groups. The Budget Estimates 2013-14 earmarked ` 935.55 crore for the share of Mizoram in the Central pool of resources against the Thirteenth Finance Commission estimate of ` 895.00 crore which is an increase of 4.5 per cent. It is indeed gratifying to have such estimate especially at a time when the country is passing through economic hard time. Besides, Multilateral Banks are also invited to promote regional connectivity by building roads in the North Eastern States for having good connectivity with Myanmar. This is also grateful news for us since we will be benefited by this initiative enormously.

7. In the meantime, Government of Mizoram also devises its fiscal policy and guiding principle in line with Thirteenth Finance Commission's recommendation as well as Planning Commission's instructions. Twelfth Finance Commission recommended enactment of Fiscal Responsibility and Budget Management Act (FRBM Act) for Union and all State Governments as a part of an effort to reform and to consolidate respective financial condition. Thirteenth Finance Commission reinforces this recommendation by offering incentives on compliance. Even Mizoram Government has also been implementing and updating its own FRBM Act so as to achieve and align Thirteenth Finance Commission's recommendation for the State. Thirteenth Finance Commission recommended that Govt. of Mizoram will have to maintain Revenue Surplus from the fiscal 2011-12, gradually reduce its fiscal deficit to 5.2 per cent in 2012-13, 4.1 per cent in 2013-14 and ultimately to 3 per cent of its GSDP by 2014-15 and limit outstanding liabilities at 82.9 per cent of GSDP in 2012-13, 79.2 per cent in 2013-14 and eventually at 74.8 per cent of corresponding GSDP by 2014-15.

8. Planning Commission of India also prescribed guidelines for working out the estimate of State financial resources. This guideline envisaged that estimate for Annual Plan 2013-14 resources should be exercised on the

basis of current economic situation and also stipulated various norms to be followed while computing estimate of State's share in Central Taxes, State's Own Tax Revenues, State's Own Non-Tax Revenue etc...In fact, various Grants received under Non-Plan and Plan are also assessed as per the stipulations indicated by Planning Commission.

9. Even though it has been highlighted in the previous years, incentive offered by Thirteenth Finance Commission may be highlighted once again. They are

(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.

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. It may not be out of place to mention that data on the performance of Mizoram has been sought from Ministry of Finance and is currently under examination. It is hoped that the red lines are surpassed by the achievement of the State and these offered incentives are availed of.

10. In addition to the above paragraph, Thirteenth Finance Commission also has projection on the Tax-GSDP ratio for Mizoram State. As per this projection in its report Vol –II at Annexe- 7.3, Tax-GSDP ratio should 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 it is said time and again, the fiscal policy and the economy of the State depend to a large extent on the devolution of resources coming from the Centre. However, the Centre is urging State Government every year to generate as much own tax as possible. Owing to which, a series of measures and initiatives have been taken by the State Government. However, as well known, the citizen living in the scheduled area is exempted Income Tax by Sec 10(26) of Income Tax Act, 1961. Moreover, Tax base is limited; investment from private players is almost zero, basic infrastructures are also not adequate. All these disadvantageous characteristics exacerbate the tax potential of the State.

11. However, State Government is also compelled to exercise various austerity measures as a result of resources constraints and as a part of an effort to align Thirteenth Finance Commission's stipulations. In the

meantime, it is imperative to mention that all these measures are often neutralized and diluted by ever increasing cost of administration and secular decline of currency value. As a result of which, the State finance needs prudent management and untiring vigil so as to balance the resources and expenditure. The fiscal policy of the State is also driven by this disposition at large.

12. Meanwhile, State Government is implementing flagship programme called New Land Use Policy which aims at weaning away the primordial method of farming called Jhum cultivation and substituting the same with a permanent, scientific and systematic modern method of cultivation. Actually, more than 50 per cent of the State population derives their greater part of income from agriculture. It is therefore apparent that faster growth in agriculture is essential to provide boost their income. In this direction, horticulture and agriculture sector has slowly gained momentum and shown marked improvement in their production during the past few years. In other words, State Government invests maximum part of its capital spending for promotion and encouragement of agriculture and micro-industry sectors in the rural areas. So far the output is concerned, the direction of investment seems appropriate and it seems it is also the need of the hour of the State.

B. FISCAL POLICY FOR 2013-14:

13. It can be said that the fiscal federalism of the Union hinders the State Government to formulate its own fiscal policy to some extent, however, not fully. The Centre wants the State Government to improve own tax effort, to curtail non-productive spending and to improve spending on capital formation. Against the backdrop of this principle, Thirteenth Finance Commission designs roadmap for fiscal consolidation of the Union as well as State Government. Some of the prominent features of Thirteenth Finance Commission's roadmap for fiscal consolidation of Mizoram State are listed down below:

(a) Revenue Account will be maintained in surplus from 2011-12 onwards.

(b) Fiscal deficit will be progressively reduced with respect to GSDP to be contained within 3 per cent of GSDP by 2014-15.

(c) State Government will amend/enact FRBM Acts to align fiscal consolidation roadmap worked out by Thirteenth Finance Commission. Upon enactment and compliance of FRBM, the State will be able to avail of State specific grants recommended for a state.

(d) Debt stock/ outstanding liabilities of the State Governments will be gradually brought down not to exceed 74.8 percent of corresponding 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

14. In line with the above fiscal frameworks, the fiscal policy of the State has been worked out. Thirteenth Finance Commission further 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 2013-14 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.

15. In order to ensure that the State finance does not fall outside the above general framework, the State need to put ceaseless endeavor in keeping vigil of its own fiscal management. As well known, the State finance is fully dominated by the characteristics of high dependence on the Centre. However, the resources coming from the Centre is inadequate to meet the rising requirements of the State many times. It is therefore imperative from the part of the State to generate own revenue as much as possible.

16. As per Annexure 7.7 in Thirteenth Finance Commission's Report Vol-II, the projected Own Tax Revenue for our State for the year 2011-12, 2012-13 and 2013-14 are ` 149.81 crore, ` 168.66 crore and ` 189.81 crore

respectively. At the same time, the actual achievement of the State for the year 2011-12(actual), 2012-13 (RE) and 2013-14(BE) are ` 178.67 crore, ` 202.07 crore and ` 222.25 crore respectively. This performance signifies the tax effort of the State which may be taken into account as good performance keeping in mind the potential it possesses.

17. In Non-Tax revenue side, the projection of Thirteenth Finance Commission on collection of Own Non-Tax for the year 2011-12, 2012-13 and 2013-2014 are ` 87.85 crore, ` 167.10 crore and ` 178.48 crore respectively. Meanwhile, the performance of the State against these projections for the year 2011-12(actual), 2012-13 (BE) and 2013-2014 (BE) are ` 168.03 crore, ` 206.75 crore and ` 266.00 crore respectively. In view of Thirteenth Finance Commission expectation on State's tax efforts, the actual performance of the State is good. However, a lot remains to be done to catch up with well performing neighbouring States

18. While the receipt side of the State budget shows an improvement trend, the expenditure side indicates contrasted performance. Thirteenth Finance Commission projected the Non-plan Revenue Expenditure of Mizoram for the year 2011-12, 2012-13 and 2013-14 at ` 1564.20 crore, ` 2002.55 crore and ` 2144.83 crore respectively whereas the actual and estimated expenditure of the State in the year 2011-12, 2012-13(RE) and 2013-14 (BE) are ` 2350.71 crore, ` 2719.91 crore and ` 2783.82 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 State Government alone is struggling hard to prevail over this fiscal dilemma.

19. The fiscal position of the State is always disturbed by the incessant provision of mass subsidy on purchase of food grains and power. Besides, rising requirements for salary and its related items as a result of implementation of Pay revision added another huge burden to the State finance as well. The State needs to manage prudently these increasing requirements in tune with the resources coming from the Centre. Expenditure control will remain the prominent fiscal policy of the State to manage the rising expenditure.

20. Fortunately, Central Government intends to roll out National Food Security Bill, 2011 to make food a legal entitlement for all targeted

population. In the Union Budget 2013-14, ` 10,000 crore was earmarked over and above the normal provision in the Budget to pave way for the roll out of the Bill on the ground. It is strongly believed that the existing heavy burden of the State finance as a result of provision of mass subsidy on food grains would be reduced to a huge quantum when this security bill is implemented in the State.

21. The subject of power trading also requires a thorough revisit to exercise the trading in the principle of no-loss-no-gain. However, the State Government is jointly responsible in handling this trading with Joint Electricity Regulatory Commission (JERC). Actually, JERC acquires sole authority in determining various power tariffs in particular in regular updating. However, collection of Users charges is handled by State Government and therefore it is imperative for the State to improve and get better the current trend of power user charges collection.

22. Taking into account various expenditure commitments of the Government indicated above, the State Government is trying to maintain the Revenue Surplus at ` 381.81 crore and the fiscal deficit at ` 73.64 crore during 2013-14 of which the fiscal deficit is 0.8 per cent of the projected GSDP for 2013-14 i.e ` 9200.71 crore.

23. 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.

24. The major fiscal initiatives that the Government will pursue during 2013-14 are given below in brief:

Tax Policy:

25. As it has been repeatedly said many times before, the tax potential of the State is very limited and baseless owing to its geographical locations as well as less population. However, the State Government endeavors many attempt in a bid to enhance any available resources within its territory. Some of the efforts may be highlighted below:

i) Initiative to introduce Mizoram Development Tax is being undertaken by Law Department & Taxation Department. It is considered to be a replica of Income Tax currently levied by Central Government.

ii) Entry Tax to the Aizawl Municipal Area is also proposed.

iii) It was proposed to amend Mizoram Entertainment Tax 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) In a bid to improve and get better compliance, improvement on Tax Deduction at Source (TDS) is being initiated.

vi) It was observed that some sector or economy in the business market, regardless of the size of business, is still lying uncovered by the taxable capacity. It is intended to formalize this informal sector to be included under tax regime.

vii) As a piece of initiative for augmentation of own collection of taxes, initiative is undertaken to collect *cess* on road tax, property tax, water supply, state lottery and petroleum products. This *cess* may be ascribed to any basic primary services like Education, Health etc… This practice is currently being done by Central Government and many States for promoting their priority areas.

viii) The possibility and feasibility of Introduction of innovative tax is also currently under the active consideration of the Government. e.g. Environment tax.

ix) Levying toll tax on the State road has been an issue in the State finance since long time back in a bid to augment own tax revenue. Currently, initiative is under way to seriously take up the issue once again keeping in mind the necessity of generating additional resources to meet even the minimal requirement of our State.

26. The main determinants of the fiscal position of the State are resources transferred from Central Government since the State has a very minimal tax collection. Since such resources, sometimes, do not meet the normal requirement of the State, it is essential from the part of the State Government to consciously improve own resources. Therefore, 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.

27. It will now, therefore, be the cautious 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:

28. It is apparent that having a separate big expenditure policies is difficult for sub-national entities. However, the expenditure policy in recent years is strongly guided by the principle laid down by Thirteenth Finance Commission. Meanwhile, the State Government is paying due attention to curb rising expenditure as well as to streamline Government expenditure to re-orient the direction towards promotion of the welfare of the people. Some of the noteworthy action of State Government being taken towards transparency and people's participation in expenditure of public money may be noted down as below:

i) *Ethics Committee* is formed at State Level to oversee and safeguard the ethical behavior of Government Departments and performance.

ii) Similar policy has been adopted for NLUP (New Land Use Policy) at State Level, District Level and Village Level Committees

iii) Besides, plan expenditure is re-oriented towards uplift of the welfare and economic condition of the people in particular to those living in rural areas through implementation of NLUP.

iv) Implementation of NLUP has brought about an important leap forward in per capita income as well as State Domestic Product.

v) As of now, 96,139 families have been covered during the first two years out of the targeted 1,20,000 families. Another 29,862 families are being covered during the current financial year. Besides, a request has been made to Planning Commission to enhance the number of beneficiaries by 15,000 due to increase in the number of eligible families. Furthermore, an amount of ` 1085.20 crore has been received for NLUP which comprises ` 838.82 crore under Additional Central Assistance and ` 246.38 crore under convergence through Centrally Sponsored Scheme.

vi) In order to strengthen quality of monitoring being done by State, District and Village Level Monitoring Committees, NABCONS has been engaged as the Third Party Monitoring Agency. They are expected to complete Mid-Term Appraisal by end of February, 2013.

29. In addition to the endeavors delineated above, 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, Mizoram Public Resource Management Programme 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, three Treasuries have been computerized. In this connection, the abovementioned Departments 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 is being pursued in full swing.

(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 10000 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.

30. The main objective 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:

31. As per Thirteenth Finance Commission's Report, State Government is required to bring down the debt stock/outstanding liabilities to 74.8 per cent of GSDP by the end of the award period (2014-15). It is therefore 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
82.9 per cent of GSDP in 2012-13
79.2 per cent of GSDP in 2013-14 and
74.8 per cent of GSDP in 2014-15

32. 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:

61.15 per cent of GSDP in 2010-11,
57.21 per cent of GSDP in 2011-12

52.89 per cent of GSDP in 2012-13 and
49.81 per cent of GSDP in 2013-14

From the above data, it can be concluded that the performance of the State in respect of outstanding debt/liability is indeed appreciable particularly in comparison with Thirteenth Finance Commission's recommendation.

33. As per Annual Financial Statement 2013-14, loans to be availed from Open Market Borrowing is estimated at ` 299.12 crore whereas from NABARD and NCDC are estimated at ` 60.00 crore and ` 1.00 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.

Consolidated Sinking Fund

34. The State Government builds up a reserve fund called Consolidated Sinking Fund to meet future repayments obligations of loans contracted in the past. 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 31.3.2013 comes to ` 135.40 crore. During 2013-14, another amount of ` 20.90 crore is proposed to be invested again under this reserve fund.

Contingent and Other Liabilities

35. 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. 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 during 2011-12. During 2012-13, ` 150.00 lakh was invested again. As on 31.3.2013, the accumulated corpus fund is estimated to be ` 350.00 lakh. During 2013-14, it was proposed to invest

` 200.00 crore towards augmenting the corpus fund. In the meantime, the outstanding Guarantees given by the State Government at the end of the year 2012-13 is worked out to be ` 102.75 crore.

Levy of User Charges

36. Levy of User Charges forms a significant component of State own non-tax revenue. Being a small state in terms of population and areas, collection of User charges on various governments' services are always marginal and used to fall below expectation and estimation. Central Government expects State Government to recover at least the O&M (Operation & Maintenance) cost of any projects providing public service. Meanwhile, owing to certain reasons, most of the projects in the State are being run with a cushion from the State exchequer. However, State Government is paying due attention to collection of User charges especially in drinking water supply, registration of vehicles and power supply. Some of the initiatives in this perspective may be highlighted as below:

(a) The State Government has increased various user charges on supply of drinking water and vehicle registration fees. Impact has also been seen from current financial year.

(b) Besides, power tariff is also revised on periodical pattern by Joint Electricity Regulatory Commission. Since power supply is still being managed departmentally in the State against the recommendation of the Centre, fund used for purchase of power causes a huge drain out from the State Exchequer. As a result of which, regular revision of power tariff as well as monitoring of revenue collection is of paramount importance for improvement of State finances.

(c) Fee collected on account of registration of Casual Labourers, Helpers has been an important issue nowadays. Therefore, compulsory registration of Casual Labourers has become operationalised and being implemented for augmentation of Non-Tax Revenue in the State.

(d) Collection of Agency charges on account of execution of National highway has seen big improvement during current financial year. Being an agency of Ministry of Road Transport, Government of India, State PWD can claim Agency charges for implementation of National Highway in the State. During 2012-13, more than ` 10.00 crore was realized from the payment of Agency charges by Central Government.

37. 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:

38. The fiscal policy of the State, needless to say, has to be framed in line with the stipulations laid down by Thirteenth Finance Commission. Therefore, the top priorities of the Government would be alignment of various fiscal indicators of State finance with the roadmap for fiscal consolidation prescribed by the Commission. 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. Then, it would be the utmost endeavor of the State Government to tap and draw on all available resources vis-à-vis rationalizing non-productive expenditure especially Non-plan revenue expenditure for keeping various fiscal indicators to remain within the prescription limit of Thirteenth Finance Commission's recommendations.

D. POLICY EVALUATION:

39. As it has been mentioned before, it is very difficult to chalk out separate consequential fiscal policy other than Central Government fiscal policy since the State is highly dependent on the Centre. Meanwhile, Thirteenth Finance Commission devised a roadmap for consolation of State finances to be effective within its award period which insists the State Government to limit its various fiscal indicators within the periphery. The State finance is strongly guided by this roadmap. As a result of this recommendation, the State used to have its Revenue account in surplus and is also able to control its fiscal deficit and outstanding liability below the target specified by the Commission. It is clear, from this aspect, that the State fiscal policy is still confined within the roadmap for fiscal consolidation. However, it will remain the strategic policy of the State Government to maximize its own revenue as well as rationalizing non-productive expenditure at every corner.

40. Performance of the State in respect of significant fiscal indicators during the last few years may be presented here in to present the consequences of FRBM Act, 2006 on the State finances. Revenue Surplus for the year 2011-12 (Pre-actual), 2012-13(RE) and 2013-14 (BE) are placed at ` 287.96 crore, ` 586.65 crore and ` 381.81 crore respectively. In the meantime, the fiscal deficit of the State for the year 2011-12 (Pre-actual), 2012-13 (RE) and 2013-13 (BE) are ` 212.60 crore, ` 562.11 crore and ` 73.64 crore respectively. The actual figures for 2012-13 and 2013-14

are not yet ready to be taken into account. However, in actual account of the State, the State finance seems to have followed the fiscal correction path which is being set in line with Thirteenth Finance Commission recommendation. Nonetheless, the fiscal policy of the State should be managed and administered carefully and prudently so as to moderate the impact of global as well as sovereign economic slowdown by consciously rationalizing the expenditure side so as to conform to the resources.

41. It would be the ceaseless effort of the State Government to increasingly improve generation of its own resources vis-à-vis rationalization of unproductive expenditure in order to maximize fund for capital spending.

E. RATIONALE FOR POLICY CHANGES:

42. Keeping in mind the essentiality of own tax efforts, 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 as it has already been discussed earlier. 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.

43. Taking into account the fiscal management and policy of the State Government during last few years, the Government of Mizoram has redrawn a Fiscal Correction Path in the light of 2011-12(actual), 2012-13(BE), 2012-13(RE) and 2013-14(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	*2009-10 (Actuals)*	*2010-11 (Actuals)*	*2011-12 (Actuals)*	*2012-13 (BE)*	*2012-13 (RE)*	*2013-14 (BE)*	*2014-15 (Proj)*
A	**STATE REVENUE ACCOUNT :**							
1	Own Tax Revenue	107.58	130.08	178.67	190.42	202.08	222.25	255.09
2	Own Non-Tax Revenue	126.50	146.71	168.03	229.43	206.75	266.00	305.29
3	***Own Tax+Non Tax Revenue (1+2)***	***234.08***	***276.79***	***346.70***	***419.85***	***408.83***	***488.25***	***560.38***
4	Share in Central Taxes & Duties	394.53	590.78	827.78	813.71	792.64	935.66	1055.00
5	Plan Grants	1609.56	1688.08	1980.83	2398.56	2893.86	2451.08	2696.19
6	Non-Plan Grants	725.33	819.06	856.50	1164.36	1164.36	1164.43	1280.87
7	***Total Central Transfer (4 to 6)***	***2729.42***	***3097.92***	***3665.11***	***4376.63***	***4850.86***	***4551.17***	***5032.06***
8	***Total Revenue Receipts (3+7)***	***2963.50***	***3374.71***	***4011.81***	***4796.48***	***5259.69***	***5039.42***	***5592.44***
9	Plan Expenditure	897.35	1197.48	1373.14	1588.51	1953.13	1873.79	2061.17
10	Non-Plan Expenditure	1805.35	2057.55	2350.71	2580.20	2719.91	2783.82	3062.20
	of which							
11	Salary Expenditure	881.80	1171.72	1150.09	1483.15	1482.72	1617.13	1778.84
12	Pension	164.26	248.75	298.36	238.72	240.17	240.17	264.19
13	Interest Payments	254.35	105.46	273.79	242.00	248.37	248.49	273.34
14	Subsidies - General	-	-		-			
15	Subsidies - Power	-	-		-			
16	***Total Revenue Expenditure (9+10)***	***2702.70***	***3255.03***	***3723.85***	***4168.71***	***4673.04***	***4657.61***	***5123.37***
17	Sal+Interest+Pensions (11+12+13)	1300.41	1525.93	1722.24	1963.87	1971.26	2105.79	2316.37
18	as % of Revenue Receipts (17/8)	43.88	45.22	42.93	40.94	37.48	41.79	41.42
19	***Revenue Surplus/Deficit (8 -16)***	**260.80**	**119.68**	**287.96**	**627.77**	**586.65**	**381.81**	**469.07**

(Rupees in Crore)

	Items	***2009-10 (Actuals)***	***2010-11 (Actuals)***	***2011-12 (Actuals)***	***2012-13 (BE)***	***2012-13 (RE)***	***2013-14 (BE)***	***2014-15 (Proj)***
B	**CONSOLIDATED DEBT :**							
1	Outstanding debt and liability	3163.95	3704.55	3999.77	4362.31	4241.10	4582.85	4899.85
2	Total Outstanding guarantee	102.99	102.75	126.30	103.25	126.30	130.00	135.00
	[of which guarantees on account of budgeted borrowing and SPV borrowing]							
C	**CAPITAL ACCOUNT :**							
1	Capital Outlay	572.80	615.38	494.84	888.74	1144.11	451.80	496.98
2	Disbursement of Loans and Advances	24.94	29.87	33.52	31.20	31.20	31.20	34.32
3	Recovery of Loans and Advances	25.32	25.97	27.80	26.55	26.55	27.55	30.30
4	Other Capital Receipts	-	-		-			
5	Transfer to Contingency Fund	-	-		-			
D	**GROSS FISCAL DEFICIT :**	-311.62	-499.60	-212.60	-265.62	-562.11	-73.64	-31.93
	$[(A_8+C_3+C_4)-(A_{16}+C_1+C_2+C_5)]$							
E	**GSDP (Rs. crs.) at current prices**	5497.93	6057.70	6991.40	8018.96	8018.96	9200.71	10560.27
	Actual/Assumed Growth Rate (%)	44.33	10.18	15.41	14.70	14.70	14.74	14.78
F	**INDICATORS AS % OF GSDP**							
1	Own Tax Revenue (A1/E)	1.96	2.15	2.56	2.37	2.52	2.42	2.42
2	Own Non-Tax Revenue (A2/E)	2.30	2.42	2.40	2.86	2.58	2.89	2.89
3	Total Central Transfer (A7/E)	49.64	51.14	52.42	54.58	60.49	49.47	47.65
4	Total Revenue Expenditure (A16/E)	49.16	53.73	53.26	51.99	58.27	50.62	48.52
5	Revenue Surplus/Deficit (A19/E)	4.74	1.98	4.12	7.83	7.32	4.15	4.44
6	Gross Fiscal Deficit *	5.67	8.25	3.04	3.31	7.01	0.80	0.30
7	Outstanding Debt and Liabilities (B1/E)	57.55	61.15	57.21	54.40	52.89	49.81	46.40

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

FORM D - 1

(See Rule 9)

SELECT FISCAL INDICATORS

	Items	2011-12 (Actuals)	2012-2013 (RE)
1	Gross Fiscal Deficit as Percentage of GSDP	3.04	7.01
2	Revenue Deficit (-)/Surplus (+) as Percentage of GSDP	4.12	7.32
3	Revenue Deficit (-)/Surplus (+) as Percentage of TRR	7.18	11.15
4	Total Liabilities - GSDP Ratio (%)	57.21	52.89
5	Total Liabilities - Total Revenue Receipts (%)	99.70	80.63
6	Total Liabilities - State's Own Revenue Receipts (%)	1153.67	1037.37
7	State's Own Revenue Receipts - Revenue Expenditure (%)	9.31	8.75
8	Capital Outlay as Percentage of Gross Fiscal Deficit	232.76	203.54
9	Interest Payment as Percentage of Revenue Receipts	6.82	4.72
10	Salary Expenditure as Percentage of Total Revenue Receipts	28.67	28.19
11	Pension Expenditures as Percentage of Total Revenue Receipts	7.44	4.57
12	Non-Developmental Expenditure as Percentage of Aggregate Disbursement	26.88	23.10
13	Gross Transfer from the Centre as Percentage of Aggregate Disbursement	80.76	79.45
14	Non-Tax Revenue as Percentage of Total Revenue Receipts	4.19	3.93

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)	
	2011-12 (Actuals)	2012-13 (RE)	2011-12 (Actuals)	2012-13 (RE)	2011-12 (Actuals)	2012-13 (RE)
1	3	4	5	6	7	8
Market Borrowings	**300.00**	**285.75**	**172.60**	**122.53**	**1217.83**	**1381.05**
(a) Market Loans	*300.00*	*285.75*	*168.04*	*117.97*	*1197.33*	*1365.11*
(b) Power Bonds			*4.56*	*4.56*	*20.50*	*15.94*
Loans from Centre	**22.28**	**9.64**	**17.97**	**18.79**	**542.02**	**532.87**
(a) Block Loans	*22.28*	*9.64*	*17.97*	*18.71*	*542.02*	*532.95*
(b) Other Loans				*0.08*	*0.00*	*-0.08*
Special Securities issued to the NSSF	**13.83**	**10.00**	**6.30**	**6.07**	**172.74**	**176.67**
Borrowings from Financial Institutions/Banks	**58.25**	**51.50**	**37.23**	**40.94**	**338.04**	**348.60**
(a) LIC			*25.66*	*23.66*	*185.63*	*161.97*
(b) NABARD	*57.29*	*50.00*	*10.48*	*16.06*	*140.68*	*174.62*
(c) NCDC	*0.96*	*1.50*	*0.01*	*0.14*	*3.80*	*5.16*
(d) Other Institutions			*1.08*	*1.08*	*7.93*	*6.85*
WMA/OD from RBI	**71.39**	**43.45**	**52.15**	**69.18**	**46.46**	**20.73**
Provident Funds, etc.	**387.37**	**481.00**	**271.64**	**382.50**	**1658.21**	**1756.71**
(a) General Provident Fund	*380.18*	*478.50*	*268.17*	*379.00*	*1593.31*	*1692.81*
(b) Insurance & Pension Fund	*7.19*	*2.50*	*3.47*	*3.50*	*64.90*	*63.90*
Other Liabilities					**24.47**	**24.47**
TOTAL	**853.12**	**881.34**	**557.89**	**640.01**	**3999.77**	**4241.10**

B. WEIGHTED AVERAGE INTEREST RATES ON STATE GOVERNMENT LIABILITIES

(Percent)

Category	Raised during the Fiscal Year		Outstanding Amount (End-March)	
	2011-12 (Actuals)	2012-13 (RE)	2011-12 (Actuals)	2012-13 (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		7.70	7.70
(b) NABARD	6.50	7.25	6.50	7.25
(c) REC	12.00	-	10.28	10.28
(d) PFC	-	-	-	-
(e) NCDC	-	12.95	9.25	12.95
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, 2011	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, 2012	Col (4)/ Outstan-ding stock of SLR Borrowings (%)	Additions during the current year 2012-13	Withdrawals from CSF during the current year	Outstanding balance in CSF at the end of current year/beginning of ensuing year Tentative 31st March, 2013	Col. (S) Outstanding stock of SLR Borrowings (%)
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*
95.75	21.75	-	117.5	9.65	17.9	-	135.4	9.8

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 2012-13 (Rs. in crore)	Additions during the year 2012-13 (Rs. in crore)	Reductions during the year 2012-13 (Rs. in crore)	Invoked during the year 2012-13 (Rs. Crore)		Outstanding at the end of the year 2012-13 (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	124.28	44.31	-	8.33	-	-	35.98			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	59.93	59.93	-		-	-	59.93			
Other Statutory Corporation	59.13	25.78	-		-	-	25.78			
Other Institutions	14.50	4.61	-		-	-	4.61			
TOTAL	**257.84**	**134.63**	**-**	**8.33**	**-**	**-**	**126.30**			

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.