

FORM – I
(See Rule 3)

MEDIUM TERM FISCAL POLICY STATEMENT

A. FISCAL INDICATORS – ROLLING TARGETS

Sl. No.	Item	Previous Year 2006-'07 (Actuals)	Current Year 2007-'08 (Budget Estimates)	Current Year 2007-'08 (Revised Estimates)	Ensuing Year 2008-'09 (Budget Estimates)	Targets for next Two Years	
						2009-'10 (Proj)	2010-'11 (Proj)
1	Revenue Deficit (-) / Surplus (+) as per centage of GSDP	8.43	4.95	11.82	5.10	7.84	9.11
2	Fiscal Deficit as per centage of GSDP *	-5.37	2.88	3.51	3.00	3.00	3.00
3	Total outstanding Liabilities as per centage of GSDP	94.15	91.60	92.05	88.17	83.28	78.66
4	Total outstanding Liabilities as a per centage of Total Revenue Receipt (TRR)	142.74	155.54	128.11	144.35	141.29	138.40
5	Interest Payments as a per centage of Total Revenue Receipts (TRR)	12.18	11.06	7.64	9.16	9.84	9.10

Notes:

1. GSDP is the Gross State Domestic Product at current market prices
2. For the purpose of estimating Fiscal Deficit as a per centage of GSDP, the time series data on GSDP projected by the Twelfth Finance Commission is taken into account.

1. State finances of Mizoram started looking better since 2002-03 as the Government initiated several steps in resource mobilization, expenditure management and fiscal consolidation. To institutionalize the reforms process further and to avail the Debt Consolidation and Relief Facility as recommended by the Twelfth Finance Commission, the State Government enacted the Fiscal Responsibility and Budget Management Act in December 2006, with the objectives of, *inter alia*, to eliminate the revenue deficit and reduce the fiscal deficit to **3 per cent** of the GSDP by 2008-09. Under the Mizoram FRBM Act 2006, the Government of Mizoram brought out FRBM Rules 2007 and made it effective from 1st July 2007.

2. The year 2007-08 is the first full year for the State Government to manage the State economy with FRBM Act mandated goals as guidepost. The fiscal performance in 2007-08 in relation to the quantitative goals under the Act is gratifying. The Government of Mizoram eliminated its revenue deficit in 2003-04 itself. Therefore, the task ahead was to create further space in revenue account, so that the surplus can be deployed for creating assets of the State and to adhere to the FRBMA goals. During 2007-08 higher growth in revenue receipts and controlled growth of revenue expenditure have resulted in further improvement of revenue surplus. The State, by virtue of its fiscal performance, has been able to enjoy the debt consolidation and debt write-off facility from the Government of India. The State economy has entered into a positive loop of higher growth and increased revenue receipts. However, some areas of concern relating to fiscal correction remain. Such concerns mainly relate to quality of expenditure. Increased allocation in social sector has implication on revenue account as well as fiscal deficit and is sought to be balanced by containment of other non-plan revenue expenditure.

3. In regard to quality of expenditure, notwithstanding the fact that the State Government has put much emphasis on the improvement in social sector expenditure in the Medium Term Fiscal Policy, the average social sector expenditure as percentage of total expenditure of the State for last five years at **37.08 per cent** remain higher than the All States average of **32.62 per cent**. Similarly, within the social sector, the average expenditure on health and family welfare to total disbursement for the last five years at **4.1 per cent** in Mizoram is higher than that of All States together at **3.8 per cent**. However, in case of education sector, the average percentage of sectoral expenditure to total expenditure at **3.8 per cent** is marginally less than the All States average. Against this backdrop the State Government is keen to augment the expenditure in these priority sectors during the medium term and explore the possibility of introducing Programme Performance Budgeting to keep track of quality of

expenditure. However, this needs appropriate capacity building within the State Government Departments during the medium term.

4. The last couple of years witnessed bamboo flowering which occurs after a lapse of every 50 years; at that time the bamboo flowering resulted in acute food shortage and in order not to repeat history and to alleviate the problems associated with the bamboo flowering with famine combat interventions, the State Government has allocated resources within its means to the related programmes. However, fiscal performance, in terms of the FRBMA 2006 mandated goals, during the last year, by better financial management has disproved some initial apprehensions due to the exogenous problems to a large extent. Budget management, as bench mark to quantitative target, is on track. The targets relating to fiscal deficit are set to be achieved as per the mandate, while those relating to revenue deficit/surplus are within the targets notwithstanding the systemic rigidity in the short term containing non-plan expenditure particularly arising from committed and obligatory expenditure like interest payments, pensions, salaries etc.

5. During 2007-08 there has been considerable improvement in the revenue receipts of the State Government. VAT was implemented in the State from 1st April 2005. The main thrust of the Government has been focusing the revenue augmentation of the State resources through better compliance and tax effort. The State Government is committed to continue the process of audit assessment of VAT covering more areas. Reforms and restructuring of other taxes are initiated in the direction of improving enforcement and compliance. The tax-GSDP ratio which was one per cent in 2001-02 has been placed at above two per cent comfortably in spite of the limited scope to augment State's own tax revenue.

6. Due to prevailing buoyant economic situation of the country, the State's share in central taxes and duties in absolute term has gone up from **Rs. 288.05 crore** in 2006-07 to **Rs. 340.89 crore** in 2007-08 and further to **Rs. 427.81 crore** in upcoming year 2008-09 as per the Union Budget 2008-09.

7. In order to reduce the deficit in the current revenue account, the State Government has been emphasizing on the rationalization of non-plan revenue expenditure (NPRE). NPRE which was **41 per cent** of GSDP in 2003-04 has been controlled at **38.9 per cent** in 2005-06 and placed at **37.57 per cent** in 2006-07. In 2007-08 (RE) it is poised to be **38.28 per cent** of GSDP and proposed to be **37.68 per cent** in 2008-09 (BE). The expenditure policy of the Government is aimed at containing non-developmental expenditure and provide adequately for priority spending on social development and infrastructure needs. Even though majority of the non-plan expenditure items are obligatory in

nature, the Government is determined to pursue the path for creating further fiscal space through carefully calibrated fiscal consolidation in support of the inclusive growth aligned with national trend.

8. The revenue deficit to fiscal deficit ratio indicates the extent of borrowed amount spent on meeting the current account deficit and the space created for capital outlay. In 2001-02 the revenue deficit as percentage of fiscal deficit was as high as **61.6 per cent** indicating that nearly two third of the borrowings was spent to meet the current expenditure leaving very little room for asset creation. However, over the years, with the efforts of the State Government, the position has improved. During the last four years the State's finances has been in revenue surplus, thereby enabling utilization of the entire borrowed amount for capital expenditure.

9. The improved financial position of the State is in other way reflected into its cash balance position. During the year 2006-07 and 2007-08 there has been no suspension of payment by the RBI even for a single occasion.

10. Considering all the pros and cons, strength and weakness of the fiscal consolidation process of the State, the budget 2008-09 has been prepared within the policy framework as indicated above. As per the provisions in the FRBMA Rules, a Statement of three-year rolling targets of fiscal indicators together with the assumptions underlying the projection of fiscal indicators is placed below.

B. ASSUMPTIONS UNDERLYING THE PROJECTIONS OF FISCAL INDICATORS

1. Revenue Receipts

(a) Tax revenue

11. Tax revenue of the State improves over the years. The introduction of Value Added Tax (VAT) in 01.04.2005 has given impetus to growth in collection of State's own tax revenues. The tax-GSDP ratio which was one per cent in 2001-02 has been placed at above two per cent comfortably in spite of the limited scope to augment State's own tax revenue. Tax-GSDP ratio for 2008-09 is estimated at **2.05**. The Government will carry forward the reforms in tax administration with the proposed Structural Adjustment Loan with the assistance of the Asian Development Bank.

(b) Non-tax revenue

12. We have been actively considering the various implications of the implicit subsidies in various services provided by the Government. We would slowly move towards levying of optimum level of user charges so that the Government does not lose heavily in the services it rendered and that resources could be generated for maintenance of such resources.

(c) State's share of Central Taxes

13. Due to prevailing buoyant economic situation of the country, the State's share in central taxes and duties in absolute amount has gone up from **Rs. 288.05 crore** in 2006-07 to **Rs. 340.89 crore** in 2007-08 and further to **Rs. 427.81 crore** in upcoming year 2008-09 as per the Union Budget 2008-09.

(d) Grants from Central Government

14. The State Government has been receiving grants on non-plan and plan accounts. Non-plan grants as a result of the recommendations of the Twelfth Finance Commission covering non-plan revenue gap grant and other maintenance grants are of great help to the State Government to meet its non-plan commitments. The amount estimated as grants from Central Government for 2008-09 is **Rs. 2026.04 crore**.

2. Capital receipts

(a) Borrowings

15. With the requirement of containing fiscal deficit for narrowing down the gap in resources, the Government slowly reduces its borrowings on account of market loans and other loans raised from the financial institutions. The targeted net market borrowing for 2008-09 is **Rs. 92.91 crore** while borrowing from financial institutions is pegged at **Rs. 34.00 crore**.

(b) Loans and advances from Central Government

16. Only relatively smaller amount of loan is received from the Central Government on the recommendation of the Twelfth Finance Commission as the Commission recommended stoppage of on-lending by the Central Government to the States. Loan received from the Central Government is mainly in the form of ten per cent loan component of EAP and small amount of loan in certain schemes under CSS. The proposed amount of loan for 2008-09 is **Rs. 25.30 crore**.

(c) Recovery of loans and advances

17. The continued release of loans and advances of the Government over the last many years brought about receipts in the form of recovery of such loans and advances. The amount tentatively earmarked for 2008-09 is **Rs. 25.30 crore**.

(d) Public Account borrowings

18. A portion of net receipts on Public Account has been utilized for meeting budgetary expenditure of the Government mainly for funding the State's plan expenditure. The amount proposed for 2008-09 on account of net borrowing from Public Account is **Rs. 73.52 crore**.

3. Total expenditure

(a) Revenue Account

19. The expenditure on revenue account shows a slowly an upward increasing trend. But the Government is committed to containing the expenditure so as to make funds available for capital investment. As a result, a conscious expenditure policy is being followed in line with the provisions of the Mizoram Fiscal Responsibility Act, 2006 so that increasing amount of revenue surplus is generated. Revenue expenditure estimated for 2008-09 is **Rs. 2032.64 crore**.

(b) Capital Account:

20. The Government will continuously improve the level of capital expenditure. Capital expenditure, in its turn will also be utilized for generating productive assets. While the amount of capital expenditure for 2007-08 (BE) is **Rs. 541.42 crore**, estimated amount for 2008-09 is **Rs. 332.95 crore**.

C. ASSESSMENT OF SUSTAINABILITY RELATING TO

(a) The balance between revenue receipts and revenue expenditure

21. The growth in revenue receipt is out pacing the growth in revenue expenditure. This results in improvement of revenue surplus over the years. While the revenue surplus in the 2007-08 (BE) is **Rs. 162.84 crore**, the estimated revenue surplus for 2008-09 (BE) is **Rs. 185.23 crore**.

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

22. The State Government has been utilising borrowings for meeting its expenditure requirements on capital account for generating productive assets. Loans from Central Financial Institutions like LIC, NABARD, NCDC etc. are utilized only for taking up eligible schemes identified by the funding of the institutions. Market borrowings have been utilized mainly for meeting the

mandatory ten per cent loan component of Normal Central Assistance (NCA), Additional Central Assistance (ACA), NEC and NLCPR Schemes thus ensuring that the borrowings of the Government are utilized for generating capital assets.

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

23. The Government has not yet carried out estimation of expenditure on pension payment on actuarial basis as the complete data on pension profile of the employees is to be developed. As a result and as permitted by the FRBM Act, estimates of expenditure on pension for the next ten years is worked out on trend growth rate (TGR) which is approximately 10 per cent, as shown below.

2008-09	-	Rs. 106.01 crore
2009-10	-	Rs. 116.61 crore
2010-11	-	Rs. 128.27 crore
2011-12	-	Rs. 141.10 crore
2012-13	-	Rs. 155.21 crore
2013-14	-	Rs. 170.73 crore
2014-15	-	Rs. 187.80 crore
2015-16	-	Rs. 206.58 crore
2016-17	-	Rs. 227.24 crore
2017-18	-	Rs. 249.96 crore

24. Data on receipts and expenditure in the State's finance over the medium term framework covering the period 2006-07 to 2010-11 is shown in the table appended herewith.

Table*(Rs. In crore)*

Sl. No.	Item of Receipt / Expenditure	Previous Year 2006-'07 (Actuals)	Current Year 2007-'08 (Budget Estimates)	Current Year 2007-'08 (Revised Estimates)	Ensuing Year 2008-'09 (Budget Estimates)	Targets for next Two Years	
						2009-'10 (Proj)	2010-'11 (Proj)
1	Revenue Receipts	1968.95	1936.35	2362.40	2217.87	2369.13	2535.68
	(a) Tax-Revenue	67.62	67.13	68.88	74.56	93.05	111.53
	(b) Non-Tax Revenue	133.38	97.97	128.94	117.27	129.00	141.90
	(c) State's share of Central Taxes	288.05	340.89	340.89	427.81	470.59	517.65
	(d) Grants from Central Government	1479.90	1429.36	1823.69	1598.23	1676.49	1764.60
	(i) Non-Plan Grants	642.82	658.46	690.71	673.50	689.41	694.50
	(ii) Plan Grants	837.08	770.90	1132.98	924.73	987.08	1070.10
2	Capital Receipts -	468.94	477.63	484.98	461.68	431.20	436.50
	(a) Borrowings on account of Internal Debt of the State Government (of which W&MA)	231.23 (19.59)	254.23 (66.70)	254.23 (66.70)	223.58 (66.70)	259.70 (66.70)	265.00 (66.70)
	(b) Loans and advances from the Centre	5.32	13.20	18.60	25.30	25.00	25.00
	(c) Recovery of loans and advances	24.01	22.70	24.65	25.30	24.00	24.50
	(d) Borrowings from Public Account (Net)	208.38	187.50	187.50	187.50	122.50	122.00
3	Total Expenditure	2294.93	2252.67	2861.65	2622.77	2800.33	2972.18
	(a) Revenue Account	1717.29	1773.51	1973.82	2032.64	2054.15	2129.04
	(i) Interest Payments	239.75	214.09	180.58	203.13	233.21	230.70
	(ii) Salaries	462.51	596.75	611.49	708.37	768.58	833.91
	(iii) Pensions	77.31	106.01	106.01	106.01	116.61	128.27
	(iv) Others	937.72	856.66	1075.74	1015.13	935.75	936.16
	(b) Capital Account	577.64	479.16	730.75	522.13	746.18	843.14
	(i) Public Debt- Repayment of borrowings (of which W&MA)	110.95 (19.59)	179.97 (66.70)	178.92 (66.70)	180.11 (66.70)	261.25 (66.70)	250.00 (66.70)
	(ii) Loans and advances	0.25	10.51	10.41	9.07	7.57	7.57
	(iii) Capital Outlay	466.44	288.68	541.42	332.95	477.36	585.57
4	GSDP	2984.99	3287.89	3287.89	3630.87	4019.55	4461.23
5	Outstanding liabilities of the State Government	2810.45	3011.71	3026.59	3201.47	3347.42	3509.42