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GOVERNMENT OF MIZORAM

FISCAL POLICY STRATEGY STATEMENT

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

GOVERNMENT OF MIZORAM
2021 - 2022

(As laid before the 8th Mizoram Legislative Assembly on 1st March, 2021)

FORM-II (a)
(See Rule 4)
FISCAL POLICY STRATEGY STATEMENT

A. FISCAL POLICY OVERVIEW

The scope of generating revenue in the State as allocated in the Constitution is limited to certain extend. Deficiency of receipts to meet expenditure requirement causes fiscal strain of the State. The low and declining tax and non tax receipts buoyancy from the Centre has also weakened the State finances over the past years. Moreover, the recent pandemic due to Covid-19 outbreak has caused a great depression in the global economy as well as the country's financial administration that has a great adverse impact in the flow of tax devolution to the States in India.

2. The framework of Fiscal Policy of the State has been mostly determined by the recommendations of the Finance Commission. In pursuance of the recommendations of the Twelfth Finance Commission, the State enacted the Mizoram Fiscal Responsibility and Budget Management (FRBM) Act, 2006 and framed the Mizoram Fiscal Responsibility and Budget Management (FRBM) Rules, 2007 which came into force on 1st July, 2007. In order to achieve the Fiscal Management Targets as provided under the Act, a Fiscal Correction Path was prepared with an objective of bringing down the annual revenue deficits to zero by 2008-2009, thereafter generating surplus and to cut down fiscal deficit to 3 percent of the estimated Gross State Domestic Product (GSDP) by 2008-2009 which was later extended to 2014-2015. Even though there were certain improvements in the transfer of fund from the Centre during the recent preceding years, the provision for transfer of funds in terms of Post Devolution Revenue Deficit Grants tend to go in a downward curve as the Fifteenth Finance Commission determined that the States should take prudent fiscal exercise in terms of generating more revenues and limiting its revenue expenditures.

3. The GSDP has been used as a proxy by the Commission for determining the fiscal capacity of the state and to determine fiscal reform path. The Thirteenth Finance Commission gave a special consideration to the Govt. of Mizoram and recommended that the state will have to maintain Revenue Surplus from 2011-12 onwards and limit its fiscal deficit to 3 per cent of its GSDP by 2014-15.

4. The recommendation of the Thirteenth Finance Commission to reduce the fiscal deficit of the state to 3 percent of GSDP by 2014-15 could not be realized, as per initial estimates, however, as per actual figures, the state government has been able to

contain its fiscal deficit within the limit recommended by the Commission since 2014-15 till date. It is also noteworthy that the state has not gone into overdraft in the last 4 years. The gradual decline in the ratio of debt stock as a percentage of GSDP has been made possible by the impressive growth of GSDP.

5. The Gross Domestic Product of the State has shown a gradual increase from ₹22240.57 crore in 2018-19 to ₹26502.56 in 2019-20 with an average annual growth rate of 19.16 per cent. The growth trend improved with a projected growth rate of 19.44 per cent to a total of ₹31653.99 crore in 2020-21 (RE) with an increase of ₹5151.43 crore from the previous year.

B. FISCAL POLICY FOR 2021-2022

6. The 'Revised Roadmap for Fiscal Consolidation' gives direction and provides impetus for fiscal consolidation by setting down specific paths for the state to follow with regard to fiscal consolidation. In line with the recommendations of the Thirteenth Finance Commission, the Mizoram FRBM Act, 2006 has been amended from time to time as highlighted below -

a) *The Second Amendment Act, 2010 (Act No.13 of 2010) dated 19th October, 2010 : Sub-section (2) of Section 6 of the Principal Act envisaged to reduce fiscal deficit to 3 % of the estimated GSDP by 2014-15. Sub-section (4) of Section 6 of the Principal Act also envisaged to reduce fiscal deficit annually so as to reach the goal set with the following rates of annual reduction - 7.50 per cent in the base year 2010-11, 6.40 per cent in 2011-12, 5.20 per cent in 2012-13, 4.10 per cent in 2013-14 and 3 per cent in 2014-15.*

b) The Third Amendment Act, 2011 (Act No 4 of 2011) dated 29th March 2011 : Sub-Section (5) of Section 6 of the Principal Act envisaged to reduce total outstanding debt at a percentage of GSDP so as to reach the annual target of 87.30 per cent in 2010-11, 85.70 per cent in 2011-12, 82.90 per cent in 2012-13, 79.20 per cent in 2013-14 and 74.80 per cent in 2014-15.

7. The Central Government plays a predominant role in fiscal management of the Union and the States. Since high debt burden of the states automatically results in the enlargement of the Union Government's debt, the Union Government has been making constant effort towards fiscal consolidation for maintaining a stable and sustainable fiscal environment. Salient features of the fiscal rules introduced by the Fourteenth Finance Commission are given below:-

i. *Fiscal deficit of all States will be anchored to an annual limit of 3 per cent of GSDP. The States will be eligible for flexibility of 0.25 per cent over and above this for any given year for which the borrowing limits are to be fixed if their debt-GSDP ratio is less than or equal to 25 per cent in the preceding year.*

ii. *States will be further eligible for an additional borrowing limit of 0.25 per cent of GSDP in a given year for which the borrowing limits are to be fixed if the interest payments are less than or equal to 10 per cent of the revenue receipts in the preceding year.*

8. However, the global pandemic due to Covid-19 outbreak has hit the economy of the Centre as well as the State as realization of Tax revenues has been decreased drastically. This has compelled the Centre to extend the borrowings limit of the States. The Government of Mizoram also could not avoid availing more loans beyond its normal limits set by the Centre. Accordingly, a further amendment of FRBM Act has been made with the following conditions :-

a) *"reduce its fiscal deficit to 3% of the estimated Gross State Domestic Product by 2024-25"*
b) *"reduce fiscal deficit annually at a percentage of Gross Domestic Product so as to reach the goal set out in Sub-sec 2 with the following rates of annual reduction – 8.34% in 2019-20, 6.4% in 2020-21, 5.2% in 2021-22, 4.1% in 2022-23, 3.5% in 2023-24 and, 3% in 2024-25.*

9. The current fiscal position of the State in respect of various fiscal indicators may be highlighted against the fiscal reform features indicated above.

10. The Finance Commission expected the Centre and the States to maintain revenue surplus so as to enable themselves to create fiscal space for allocating funds towards Capital expenditures which is generally meant for developmental works. The main bottlenecks on the way to enhancement of revenue surplus are the burgeoning Revenue Expenditure due to implementation of 7th Pay Revision and the provision of mass subsidy on purchase of power and food grains.

11. The Gross Fiscal Deficit during 2019-20 and 2020-21 (RE) were (-)₹1223.63 crore and at (-)₹2175.79 crore respectively, which are 4.62 per cent and 6.87 per cent of the corresponding GSDP respectively. The Fifteenth Finance Commission has set the fiscal consolidation path that States will reduce their fiscal deficits up to 3% in the year

2023-24 onwards. To maintain this point, the State of Mizoram will need to scopes for augmenting

12. The fiscal policy for 2021-2022 will be in line with the broad fiscal rules set by the Finance Commissions as follows.

a. To continue the process of fiscal reforms and consolidation; abolition of revenue deficit and maintain fiscal deficits within 5.2% of GSDP in 2021-22 thereafter gradually reduce to 3% by 2023-24.
b. To improve Own Tax Revenues and Own Tax-GSDP ratio
c. To improve 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 weighted 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.

13. The Fifteenth Commission has generally taken three fiscal parameters to drive the fiscal consolidation path of the States in India namely revenue deficit, fiscal deficit, and Outstanding liabilities as a measure of GSDP.

14. Considering the economic backdrop due to pandemic, and in order to avoid a sudden drop in the resource availability of the States, the Commission has recommended that the normal borrowing limit of State Governments for the year 2021-22 at 4 percent of GSDP. Thereafter, it has recommended to go in a downward curve of 3.5% and 3% in the proceeding years till 2025-26.

15. The indicative Deficit and Debt path for State Governments as set by the Fifteenth Finance Commission is as follows :-

(% of GSDP)

	2020-21	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**
Revenue deficit	-0.1	-0.5	-0.8	-1.2	-1.7	-2.5
Fiscal deficit	4.5	4.0	3.5	3.0	3.0	3.0
Total liabilites	33.1	323.6	33.3	33.1	32.8	32.5

16. The major fiscal policy initiatives that the Government will pursue in 2021-22 are laid down in brief below:

(1) Tax Policy:

17. The economy of Mizoram, lacking behind in the industrial front, has a smaller tax revenue base than most states. However, the rising personal income and other allied factors have helped in the proportionate growth of consumer market. In the context of this background, the state envisages higher revenue collection that will contribute to the improvement of the state's economic condition. This is proposed to be achieved through widening of tax base coupled with effective resource mobilization.

18. The Goods and Services Tax (GST), launched by the Central Government on 1st July, 2017, is a single value added destination-based tax for the whole country which subsumed indirect taxes. GST comprises three components, namely Central Goods & Services Tax (CGST), Integrated Goods & Services Tax (IGST) and State Goods & Services Tax (SGST).

19. In the initial post-GST, there was a decline in tax collection which could be attributed sub-summation of a number of state taxes in to GST, delayed institutionalization of monitoring mechanism viz. e-waybill, MIS and closure of Taxation Check-Gates at crucial entry points resulting in free flow of goods from outside without ensuring compliance of GST requirements. However, inter-state transactions have been settled through IGST which is subsequently refunded by the Centre to the concerned states and it has been perceived that tax revenues generated have been increasing as the new system has found a foothold.

20. With the introduction of the nationwide tax reform, The Mizoram Goods & Services Tax Act & Rules, 2017 came into force. Despite the initial hiccups, the impact of transition to GST from VAT has been minimized by the endeavor of the Centre to compensate the states for any revenue loss for a period of five years. It may be mentioned that as Mizoram always achieved the target set for GST collection, it has not received compensation till date. In the meantime, the state government has also been making effort to improve the amount of tax collection under the new tax regime through comprehensive tax assessment, introduction of tax audit for minimization of tax evasion and by ensuring that the dealers get themselves registered under GST to keep them in the tax net.

21. The Mizoram Motor Vehicles Taxation (Amendment) Act, 2011 and the Mizoram Motor Vehicles (Taxation) Rules, 2016 were implemented in the state from February, 2016 under which 6% of the original price of non-transport vehicles is collected as tax thereby increasing revenue to a great extent. Improvement of collection of taxes on account of motor vehicles and passengers & goods tax has also been taken up by introducing e-payment of Road Tax. The Government also introduced the option for payment of lifetime charge of Road tax (i.e., for 15 years) in two or three installments and surcharges are levied on those who opted for such installments.

22. Digital India Land Record Modernization Programme (DILRMP) implemented by Land Revenue & Settlement Department has helped in mapping, planning and plotting of vacant lands and allotment through payment of nominal price and the digitization of land records including assessment and collection of land revenues and taxes is expected to pay dividends in the medium to long term. Amendments to the Mizoram (Land Revenue) Act, 2013 and the Mizoram (Land Revenue) Rules, 2013 is in its final stage which would help streamline and improve the procedures and processes of survey, allotment and settlement of land, land record management and assessment and collection of land revenue. These amendments shall facilitate allotment to the deserving families and shall reduce land disputes and litigations without affecting the tax payers.

23. The Directorate of Stamps and Registration, under the Land Revenue & Settlement Department, deals with the administration, levy and collection of registration fee and stamp duty under the Registration Act, 1908 and the Indian Stamp Act, 1899 as applicable in Mizoram. With the proposed amendments in the Indian Stamp Act, 1899 as applicable in Mizoram supplemented by the proposed introduction of computerization of Registration Offices, the department is expected to earn additional revenue from registration fees and stamp duties.

24. It may be emphasized that stamp duties and registration fees are major revenue sources in other states. The State will have to consider measures to enhance its earning capacity through Stamps & Registrations by removing the ceiling imposed on stamp duties, registration fees and mutation fees for better inflow of revenue.

25. In an effort to widen the tax base, The Mizoram Animal (Control & Taxation) Act, 2014 was introduced by the Government. This act has authorized Village Councils to collect Animal Tax within their jurisdictions. Half of the tax so collected goes in to

the village council fund and the other half is deposited to the Consolidated Fund of the State. Though the amount of tax realized is still quite insignificant when compared with other taxes, this stands as a proof that the Government is making an all out effort towards generation of more revenues to augment the existing taxes levied by the State.

26. Laden by minimal infrastructures, limited resources and sparsely populated inhabitation, Primary and Tertiary sectors continue to be the key drivers of the State's GSDP. There is little to expect when it comes to collection of tax revenues through these sectors. Nevertheless, the level of state's own tax collection has gradually increased from ₹726.70 crore in 2018-19 to ₹730.98 crore in 2019-20. Meanwhile, there is a substantial decrease in realization of own tax revenue during 2020-21 (RE) which is ₹661.69 crore, reason being attributed to the outbreak of Covid-19 crisis. However, the contribution of the state's own taxes as a percentage of the GSDP has also gradually decreased from 3.27 per cent in 2018-19 to 2.76 per cent in 2019-20. State's own tax revenue is projected to come up at ₹719.56 crore, which is an increase of 16.68 percent from the previous year BE. Own tax revenue will be 1.89 per cent of projected GSDP for the year 2021-22. Meanwhile, State own non tax revenue is pegged at ₹852.26 crore.

(2) Expenditure Policy

27. The expenditure policy of the state government should, first of all, be guided by the provisions and recommendations as laid down by the Fourteenth and Fifteenth Finance Commission. In the meantime, the state is still faced with certain fiscal hiccups in spite of the fairly substantial increase in the volume of resources transferred as compared to the amount transferred by the previous Commission. This problem is aggravated by incessant provision of mass subsidy on purchase of food-grains and power. Hence, it is essential for the state government to purposely draw up its expenditure policy and to formulate the ground solution for settlement of this fiscal dilemma.

28. The most interesting aspect of expenditure pattern of the state government is that expenditure for development purposes has not been compressed during the fiscal correction process. The total expenditure on Capital Accounts during 2020-21 is ₹1415.23 crore which shows an increase of 3.10 per cent from the previous year's capital expenditure of ₹1372.67 crore. The percentage of Capital Expenditure as a ratio

of the total Revenue Receipt is 14.97 per cent. The expenditure on Social and Economic Sectors has shown an increase of 15.56 per cent and 9.23 per cent respectively during 2020-21. The percentage increase on General Services is 2.18 per cent during the same year.

29. The unrecovered expenditure on food trading alone has been costing the State Government crores of rupees each year. To minimize the losses, the Government has resorted to procurement of rice under Open Market Sales Scheme or OMSS (D) which has substantially reduced Government spending on procurement of rice. Moreover, the implementation of National Food Security Act (NFSA), 2013 from 1.3.2016 has helped in the increase of the normal allocation of rice received from Government of India and the decrease in the cost of procurement which has aided the state to save sizeable amount of money. The Government will also introduce Fair Price Shop Automation using e-PoS (electronic Point of Sale), which will prevent sales of rice beyond the genuine Ration Card Holder, which will ultimately reduce the overall loss on the expenditure.

30. As per the recommendations of the Central Electricity Authority (CEA), fixation of electricity tariff of the State is placed under the purview of the Joint Electricity Regulatory Commission (JERC) and is to be revised on a yearly basis. The State Government submits proposal for enhancement of the power tariff to JERC which after approval by the same is put in to effect from 1st April of every year. The steady increase in the sale of energy has greatly reduced the gap between the distribution cost and cost of actual purchase of power. This has thus resulted in the decline of expenditure towards power subsidies. Under the Restructured Accelerated Power Development and Reforms Programme (RAPDRP), strengthening and upgrading the sub-transmission and distribution system of high density load centers have been taken up to minimize operation and transmission losses. Since almost 20% of the power acquired by the State dissipates on transmission losses, this programme is likely to minimize the expenditure incurred on procurement of power.

31. In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is crucial for the state to take appropriate expenditure rationalization measures thereby laying emphasis on provision of core public and merit goods. In the mean time, sufficient provisions for services that promote productivity directly or indirectly within the state by improving human resources need to be considered.

32. As one of the measure to reduce expenditure on purchase and maintenance of vehicles, the Government of Mizoram has started implementing Vehicle Outsourcing Policy, 2019. With this policy, purchase of vehicles for all departments will be banned except those sections involving high securities.

33. Moreover, The Government of Mizoram has introduced an Annual Maintenance Contract System which will avoid excessive charges against repair of Government vehicles. Guidelines are also issued for efficient and effective implementation at all Government Departments.

(3) Borrowings and other liabilities, lending and investments

34. In pursuance of the recommendation of the Twelfth Finance Commission, the state has adopted a rule-based framework for fiscal correction and consolidation through enactment of the Mizoram FRBM Act, 2006. The enactment of the FRBM Act has provided impetus to the process of attaining fiscal sustainability and reduction in key deficit indicators, viz. revenue deficit and gross fiscal deficit.

35. The financing pattern of the state is witnessing a compositional shift with market borrowings emerging as the dominant source while the role of flows from national small savings funds has shown a gradual decline.

36. The overall fiscal liabilities of the state have increased at an average annual rate of 9.13 per cent during 2010-15 reaching ₹6407.30 crore in 2015-16. Within a span of five years, the overall liabilities have risen to ₹9029.34 crore in 2020-21 (RE). The fiscal deficit of the state is (-)₹2175.79 crore during the same year. The increase in the fiscal liabilities and the fiscal deficit during 2020-21 is mainly due to the surging increase in Public Accounts liabilities of the state. However, the fiscal deficit is estimated to stand at (-)₹811.06 crore during 2021-22, which will be 2.14 per cent of GSDP.

37. The buoyancy of the liabilities of the state with respect to GSDP during 2018-19 was 32.89 per cent, and, with respect to revenue receipts it was 89.79 per cent. Though there has been a gradual increase in the accumulation of the overall liabilities of the state, the burgeoning growth of the Gross Domestic Product of the state has shielded the rising debt stock. The total liability of the state is projected at ₹9029.34 crore during 2020-21 (RE). The debt as a percentage of the GSDP of the state is calculated at 28.53 per cent as per projected GSDP while the fiscal liability, as a percentage of the state's own revenues, is as high as 629.46 per cent in 2020-21. As for 2021-22, it is estimated that there the total liability of the state would amount to

₹10491.20 crore which is calculated at 27.63 per cent of the GSDP while the fiscal liability would be 629.46 per cent of the state's own revenue.

38. The net borrowing ceiling at 4 per cent of the GSDP, i.e. ₹37974.55 crore as projected by Economics & Statistics Department, Government of Mizoram is ₹1518.98 crore for the financial year 2021-22 as per the ceiling fixed by the Fifteenth Finance Commission. It is imperative that the fiscal space be cautiously utilized so that the overall liability of the State is maintained within a sustainable level. With an aim to minimize the debt accumulation, the Government has to take utmost care in utilization of the borrowed funds while leaving sufficient room for Capital Investments.

(4) Consolidated Sinking Fund

39. In line with the recommendations of the Tenth Finance Commission, the Reserve Bank of India enabled creation of Consolidated Sinking Fund (CSF) in 1999 to provide the state with a cushion for repayment of open market loans. The states were to contribute one to three per cent of their outstanding open market loans as at the end of the previous year. Subsequently the ambit of the CSF was expanded in 2006-07 to include amortization of all liabilities with the stipulated contribution of minimum 0.5 per cent of the outstanding liabilities of the state as at the end of the previous financial year. The Government builds up a sizeable amount in the Consolidated Sinking Fund accumulating as Reserve Fund of the state's Public Account.

40. The net accumulated principal investment by end of 2020-21 is ₹116.39 crore. The state government is committed to strengthening of the Consolidated Sinking Fund (CSF) by gradually increasing the quantum of investment in the same.

(5) Contingent and Other Liabilities

41. The Twelfth Finance Commission recommended that all states should set up sinking funds/guaranteed redemption fund for amortization of all loan including loans from banks, liabilities on account of NSSF, etc through earmarked guarantee fees. In line with the recommendations of the Twelfth Finance Commission and to ensure good fiscal governance, the Government set up a Guarantee Redemption Fund (GRF) in May, 2009 with an initial corpus fund of ₹0.50 crore. The state government is required to contribute an amount equivalent to at least $1/5^{th}$ of the outstanding guarantees during the year. This fund is maintained outside the consolidated fund of the state in the public account and is not to be used for any other purpose, except for redemption of loans. The total amount invested up to 2020-21 is ₹39.50 crore.

42. Since Guarantees are contingent liability that may have to be invoked if an event covered by the guarantee occurs, it often results in increase of contingent liabilities. It is imperative that a conscious policy of restricting the size of the contingent liabilities be put into place while pursuing a policy for streamlining the process of handling contingent liabilities in the state's finances. Therefore, any proposal for availing of loan has to be examined with much diligence taking into account the credit-worthiness, the amount and risks involved, the terms of borrowing along with justification and public purpose to be served and the possible commitments and costs of such liabilities, etc.

(6) Levy of User Charges

43. Being a small State in terms of population and areas, collection of user-charges on various services rendered by the government is always marginal and used to fall below expectation and estimation. Though several reforms have been introduced to enhance the user charges, the level of impact on the overall collection of revenue is still insignificant.

44. The Mizoram Water Supplies (Control) (Amendment) Rules, 2011 put in to effect from 21st November, 2014 have, to a great extent, resulted in increased revenue collection. However, the water tariff rate has not been revised during the last five years and it is high time to have upward revision considering the increase in expenditure for water supply. Revenue generated through other means such as levy of allotment fees, annual lease fees, etc. has minuscule impact on the overall collection of user charges though these fees also need upward revision. Power tariff remains to be the main driving force with regular revision of rates by the JERC. Initiatives have to be taken by the Government to cut down subsidies provided to the public so as to maintain a balance between expenditure and the amount of user charges realized by the Government for providing these facilities.

C. STRATEGIC PRIORITIES FOR THE ENSUING YEAR:

45. The priority of the government will be tapping more revenue potential without causing undue burden to the general public and thereby increasing capital investment in a sustainable manner. It will continue to adhere to the stipulations in the FRBM Act successfully without sacrificing the requirements of expenditure for capital investments.

46. Government of India notified General Financial Rules, 2017 which was adopted by Government of Mizoram. Under Rule 149 of GFR 2017, provisions are laid down for public procurement from Government e-Marketplace. Central Government Departments, Public Sector Undertakings, Autonomous Bodies, Railways, Defence and State Governments are availing this facility. Advantages of procurement from GeM are:

Transparency: In the procurement process in GeM, firms and rates are selected by means of automated GeM portal system to avoid possible human biases and prejudices. It is open and contactless method of public procurement.

Efficiency: The long and cumbersome process of inviting tenders and DPAB/SPAB is not required. The automated GeM system quickly enables selection of the lowest price. Litigations from bidders under present system will also be avoided. It is also paperless and cashless procurement system.

Economy: Since various sellers/suppliers from all over the country registered in GeM portal, GeM portal offers rich listing of products for individual categories of goods and services and price is very competitive. On an average, procurement through GeM can bring about savings of 20% to 25%.

47. Departments were informed to make their purchase from GeM as many as possible. Due to its many advantages over paper or manual system of procurement, Government is going to make purchase through GeM portal mandatory in respect of selected goods.

48. Moreover, the Government of Mizoram has notified a new Procurement Rules – The Mizoram Public Procurement Rules, 2020 and had been published in the Mizoram Gazette in 12/02/2020. This will enhance the transparency, efficiency and economy of various departments while spending public money.

49. End-to-End Computerization of TDPS Operations Schemes has been taken up under Food Civil Supplies & Consumer Affairs Department. All family ration cards have now been digitized and the process of updating and issuing of ration cards are done online with a reliable database. Steps are being actively taken to complete supply chain automation and automation of Fair Price Shops. In this regard, the Department is geared up to roll-out installation of e-Point of Sale (e-PoS) machines in the Fair Price Shops for which Letter of Intent has been sent to selected suppliers.

50. The Integrated Financial Management Information System (IFMIS) shall be in full function from the next financial year. The main objective of the IFMIS Project is to develop and introduce a reliable integrated system for management of treasuries in Mizoram which will act as a core function for an effective monitoring system from Finance Department. IFMIS is expected to realize the following outcomes:

- A reformed financial management system in Mizoram for the core business processes like – Payroll, Bill Preparation and Submission, Bill Processing, Pension Management, Payment Authorization, Receipts Management, Accounts Compilation, Cash Management, Debt Management, Budget Management, Deposits, and so on.
- Availability of real-time data of the core business processes under the State's finance and accounts.
- Reliable and authentic system of checks and balances
- Integration of GSTN portal and PFMS etc. with the IFMIS

51. The ever increasing Medical Reimbursement Bill brings about a great deal of headache for the state government with the piling up of huge unpaid bills. The state government has appointed the Mizoram State Health Care Society (MSHCS) to scrutinize medical bills of all the employees from 1st April, 2018 onwards. This bold step has in fact pared down the medical bills to a great extent and thus saving huge amount of public money for the state exchequer.

D. POLICY EVALUATION

52. After the twin shocks of demonetization and the introduction of GST, the economy of the country seems to have recovered and regained momentum underpinned by robust private consumption and public investment as well as on-going structural reforms. It must also be kept in mind that demonetization and GST are structural reforms which take time to bear fruit. Also, the fact that there is scope for reforms on land, labor and capital markets means that with enough political will, there can be sustained growth in 2021-22.

53. It is a well known fact that the resources of the state are limited contributing only a small portion of the total revenue of the state. The revenues collected from the state's Own Tax and Non-Tax Revenues have to be sensibly mobilized to reap maximum benefit. It is imperative that the revenues collected from the state's Own Tax and Non-Tax Revenues be increased by improving the tax base and

institutionalization of effective revenue collection mechanism. There is an urgent need to improve supervision and proper monitoring at all levels and conditional allocation of project funds subjected to proper monitoring and evaluation.

54. The overall fiscal liabilities of the state have progressively increased over the years. The government has to take necessary measures for containing the overall debt of the state within a sustainable level. Though the burgeoning liabilities are masked by the impressive growth of the state's economy, the gross fiscal liabilities could not be contained to a level recommended by the State FRBM and the FC-XIV. Widening of the resource gap also indicates depreciation of the state to sustain the debt from non-debt receipts in the medium to long run. It is therefore imperative that a suitable mechanism for containing the fiscal and overall liabilities of the state is introduced to avoid further depreciation of the fiscal health of the state.

E. RATIONALE FOR POLICY CHANGES

55. There are no striking policy changes that have been implemented by the state during 2020-21 as such. However, proactive measures have been taken up by the Government to limit its expenditures while generating additional revenues for improving the fiscal health of the state. In line with the recommendation of the Fourteenth Finance Commission, the state has endeavored to limit its fiscal deficit to less than three percent and reduce the outstanding liabilities to achieve a sustainable level. Furthermore, the Budget of the state has been prepared to generate revenue surplus as per recommendation of the Commission. 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. Expenditure toward capital accounts and maintenance expenditure on social and economic services need to be sanctioned, since they are vital for sustainable development of the state with a potential of generating revenues in the medium to long run. However, expenditure on general services has to be curtailed extensively to create more space for development expenditures.

56. The excessive focus on containing fiscal deficits and reduction of Debt to GSDP ratio has to some extent resulted in constraining capital expenditures. A realistic fiscal consolidation roadmap to reduce the fiscal deficit of the state all the while leaving sufficient headroom for capital works has to be realized.

57. In the light of changes in the sharing pattern of Centrally Sponsored Schemes, the state government has decided that only those CSS with a sharing pattern of 90:10 may be implemented by the state except those CSS which have strategic importance for the general public. The Government has taken up this initiative to minimize the financial burden spawned by the demand for State Matching Share which resulted in high fiscal deficits and corresponding piling up of liabilities as experienced in the past.

58. The Outcome Indicators of the State's Own Fiscal Correction Path is given in Form-II (b). Selected fiscal indicators, component of state government's liabilities and weighted average rates on state government liabilities, consolidated sinking fund and outstanding risk – weighted guarantees as per Forms D-1, D-2, D-3, D-4 and D-5 are ***appended***.

FORM II (b)

Annexure-II
State : Mizoram

Outcome indicators of the State's Own Fiscal Correction Path

(₹ in Crore)

	Items	*2018-19 (Actuals)*	*2019-20 (Actuals)*	*2020-21 (BE)*	*2020-21 (RE)*	*2021-22 (BE)*	*2022-23 (Proj.)*
A	**STATE REVENUE ACCOUNT :**						
1	Own Tax Revenue	726.70	730.98	661.69	661.82	719.56	777.12
2	Own Non-Tax Revenue	449.95	522.35	583.07	772.63	852.26	920.44
3	***Own Tax + Non Tax Revenue (1+2)***	***1176.65***	***1253.33***	***1244.76***	***1434.45***	***1571.82***	***1697.56***
4	Share in Central Taxes & Duties	3502.96	3017.80	3967.96	2782.93	3327.82	4285.40
5	Grants-in-Aid	4,359.88	5387.13	4572.24	5237.93	4896.16	5287.85
6	***Total Central Transfer (4+5)***	***7862.84***	***8404.93***	***8540.20***	***8020.86***	***8223.98***	***9573.25***
7	***Total Revenue Receipts (3+6)***	***9039.49***	***9658.26***	***9784.96***	***9455.31***	***9795.80***	***11270.81***
8	CSS Expenditure	1121.41	1621.27	1708.67	2162.08	2016.13	2177.43
9	State Expenditure	6384.18	7832.69	7313.18	8091.85	7200.25	7776.27
	of which						
	a) Salary Expenditure	3372.45	3412.37	3916.13	3947.44	3745.17	4044.78
	b) Pension	942.13	1399.55	1145.09	1171.09	1124.45	1214.41
	c) Interest Payment	368.68	343.12	369.68	370.53	383.94	414.66
10	Subsidies - General		2.00				
11	Subsidies - Power				160.00	175.00	
12	***Total Revenue Expenditure (8+9)***	***7505.59***	***9453.96***	***9021.85***	***10253.93***	***9216.38***	***9953.70***
13	Sal+Interest+Pensions [9(a)+9(b)+9(c)]	4683.26	5155.04	5430.90	5489.06	5253.56	5673.84
14	as % of Revenue Receipts (13/7)	51.81	53.37	55.50	58.05	53.63	50.34
15	***Revenue Surplus/Deficit (7-12)***	**1533.90**	**204.30**	**763.11**	**-798.62**	**579.42**	**1317.11**
B	**CONSOLIDATED DEBT :**						
1	Outstanding debt and liability	7315.55	8671.79	8701.26	9029.34	10491.20	11330.50
2	Total Outstanding guarantee	74.16	81.04	106.72	106.72	106.72	106.72
	[of which guarantees on account of budgeted borrowing and SPV borrowing]						
C	**CAPITAL ACCOUNT :**						
1	Capital Outlay	1868.47	1372.67	1320.86	1415.23	1417.45	1530.85
2	Disbursement of Loans and Advances	40.52	81.95	3.10	3.10	0.60	0.65
3	Recovery of Loans and Advances	22.16	26.70	41.16	41.16	27.56	29.76
4	Other Capital Receipts						
5	Transfer to Contingency Fund						

	Items	*2018-19 (Actuals)*	*2019-20 (Actuals)*	*2020-21 (BE)*	*2020-21 (RE)*	*2021-22 (BE)*	*2022-23 (Proj.)*
D	**GROSS FISCAL DEFICIT :**	**-352.93**	**-1223.63**	**-519.69**	**-2175.79**	**-811.06**	**-184.62**
	[(A_7+C_3+C_4)-(A_{12}+C_1+C_2+C_5)]						
E	**GSDP (Rs. crs.) at current prices**	**22240.57**	**26502.56**	**31240.56**	**31653.99**	**37974.55**	**45765.52**
	Actual/Assumed Growth Rate (%)	25.38	19.16	17.88	19.44	19.97	20.52
F	**INDICATORS AS % OF GSDP**						
1	Own Tax Revenue (A1/E)	**3.27**	**2.76**	**2.12**	**2.09**	**1.89**	**1.70**
2	Own Non-Tax Revenue (A2/E)	**2.02**	**1.97**	**1.87**	**2.44**	**2.24**	**2.01**
3	Total Central Transfer (A8/E)	**35.35**	**31.71**	**27.34**	**25.34**	**21.66**	**20.92**
4	Total Revenue Expenditure (A14/E)	**33.75**	**35.67**	**28.88**	**32.39**	**24.27**	**21.75**
5	Revenue Surplus/Deficit (A17/E)	**6.90**	**0.77**	**2.44**	**-2.52**	**1.53**	**2.88**
6	Gross Fiscal Deficit (D/E)	**-1.59**	**-4.62**	**-1.66**	**-6.87**	**-2.14**	**-0.40**
7	Outstanding Debt and Liabilities (B1/E)	**32.89**	**32.72**	**27.85**	**28.53**	**27.63**	**24.76**

FORM D - 1
(See Rule 9)

SELECT FISCAL INDICATORS

	Items	2019-20 (Actuals)	2020-21 (RE)
1	Gross Fiscal Deficit as Percentage of GSDP	-4.62	-6.87
2	Revenue Deficit (-)/Surplus (+) as Percentage of GSDP	0.77	-2.52
3	Revenue Deficit (-)/Surplus (+) as Percentage of TRR	2.12	-8.45
4	Total Liabilities - GSDP Ratio (%)	32.72	28.53
5	Total Liabilities - Total Revenue Receipts (%)	89.79	95.49
6	Total Liabilities - State's Own Revenue Receipts (%)	691.90	629.46
7	State's Own Revenue Receipts - Revenue Expenditure (%)	13.26	13.99
8	Capital Outlay as Percentage of Gross Fiscal Deficit	-112.18	-65.04
9	Interest Payment as Percentage of Revenue Receipts	3.55	3.92
10	Salary Expenditure as Percentage of Total Revenue Receipts	35.33	41.75
11	Pension Expenditures as Percentage of Total Revenue Receipts	14.49	12.39
12	Non-Developmental Expenditure as Percentage of Aggregate Disbursement	28.92	25.68
13	Gross Transfer from the Centre as Percentage of Aggregate Disbursement	74.63	71.22
14	Non-Tax Revenue as Percentage of Total Revenue Receipts	5.41	8.17

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)	
	2019-20 (Actuals)	2020-21 (RE)	2019-20 (Actuals)	2020-21 (RE)	2019-20 (Actuals)	2020-21 (RE)
1	*2*	*3*	*4*	*5*	*6*	*7*
Market Borrowings	**900.64**	**944.00**	**155.29**	**266.65**	**2,972.88**	**3,650.23**
(a) Market Loans	*900.64*	*944.00*	*155.29*	*266.65*	*2,970.60*	*3,647.95*
(b) Power Bonds					*2.28*	*2.28*
Loans from Centre	**14.88**	**213.85**	**21.95**	**24.00**	**259.11**	**448.96**
(a) Block Loans	*14.88*	*13.85*	*21.95*	*24.00*	*259.11*	*248.96*
(b) Other Loans		*200.00*				*200.00*
Special Securities issued to the NSSF			**17.01**	**13.18**	**170.57**	*157.39*
Borrowings from Financial Institutions/Banks	**159.87**	**195.46**	**87.38**	**68.76**	**615.47**	**763.55**
(a) LIC	-	-	*22.57*	*21.60*	*-101.98*	*-102.20*
(b) GIC	-	-	-	-	*0.07*	*0.07*
(c) NABARD	*159.87*	*180.46*	*55.14*	*37.55*	*435.12*	*578.03*
(d) NCDC	-	-	*6.37*	*6.86*	*21.14*	*14.28*
(e) Other Institutions	**-**	***15.00***	***3.30***	***2.75***	***179.15***	***191.40***
1) REC	-	*5.00*	3.30	*2.50*	179.15	*181.65*
2) HUDCO	-	-	-		-	-
3) PFC	-	*10.00*		*0.25*	-	*9.75*
(f) Others			-		*81.97*	*81.97*
WMA/OD from RBI	**72.29**	**730.98**	**72.29**	**730.98**	**-**	**-**
Provident Funds, etc.	**720.91**	**968.00**	**914.48**	**957.50**	**2,187.45**	**2,197.95**
(a) General Provident Fund	*704.92*	*950.00*	*899.23*	*940.00*	*2,101.73*	*2,111.73*
(b) Insurance & Pen. Fund	*15.99*	*18.00*	*15.25*	*17.50*	*85.72*	*86.22*
Other Liabilities	**2,408.57**	**1,284.00**	**1,652.52**	**884.00**	**2,466.31**	**1,811.26**
TOTAL	**4,277.16**	**4,336.29**	**2,920.92**	**2,945.07**	**8,671.79**	**9,029.34**

B. WEIGHTED AVERAGE INTEREST RATES ON STATE GOVERNMENT LIABILITIES

(Percent)

Category	Raised during the Fiscal Year		Outstanding Amount (End-March)	
	2019-20 (Actuals)	2020-21 (RE)	2019-20 (Actuals)	2020-21 (RE)
Market Borrowings				
(a) Market Loans	7.37	7.37	-	7.38
(b) Compensatory and other Bonds	-	-	-	-
Loans from Centre	9.00	9.80	9.00	9.00
Special Securities issued to the NSSF	-	-	-	-
Borrowings from Financial Instt./Banks	-	-	-	-
(a) LIC	-	-	-	-
(b) NABARD	4.25	3.90	4.25	3.90
(c) REC	-	-	-	-
(d) PFC	-	-	-	-
(e) NCDC	11.35	11.35	11.35	11.35
WMA/OD from RBI	-	-	-	-
Provident Funds, etc.	8.00	8.00	8.00	8.00
Other Liabilities	-	-	-	-
TOTAL	**7.99**	**8.08**	**8.15**	**7.93**

FORM D-3
(See Rule 9)

CONSOLIDATED SINKING FUND (CSF)

(₹ in crore)

Outstanding Balance in CSF at the begining of the previous year 1st April, 2019	Additions during the previous year	With-drawals from CSF during the previous year	Outstanding balance in CSF at the end of the previous year/ beginning of the previous year 31st March, 2020	Col (4)/ Outstan-ding stock of SLR Borrowings (%)	Additions during the current year 2020-21	With-drawals from CSF during the current year	Outstanding balance in CSF at the end of current year/ beginning of ensuing year Tentative 31st March, 2021	Col. (S) Outstanding stock of SLR Borrowings (%)
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*
346.04	-	-	346.04	-	37.00	266.65	116.39	

FORM D-4
(See Rule 9)

GUARANTEES GIVEN BY THE GOVERNMENT

Category	Maximum Amount Guaran-teed (₹ in crore)	Outstan-ding at the begining of the year 2019-20 (₹ in crore)	Addi-tions during the year 2019-20 (₹ in crore)	Reduc-tions during the year 2018-19 (₹ in crore)	Invoked during the year 2019-20 (₹ Crore)		Outstan-ding at the end of the year 2019-20 (₹ in Crore)	Guarantee Commission or Fee (₹ in Crore)		Re-marks
					Dis-charged	Not Dis-charged		Receiv-able	Received	
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*
Cooperative	34.28	13.20	1.00	0.90			13.30			
Govt. Companies	59.67	15.93	-	-			15.93			
Other Statutory Corporation	59.13	16.39	-	-			16.39			
Other Institutions	47.50	39.60	-	4.18			35.42			
TOTAL	**200.58**	**85.12**	**1.00**	**5.08**	**-**	**-**	**81.04**	**-**	**-**	

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		