सत्यमेव जयते

GOVERNMENT OF MIZORAM

FISCAL POLICY STRATEGY STATEMENT

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

GOVERNMENT OF MIZORAM
2010-2011

(As laid before the Mizoram Legislative Assembly on 19th March, 2010)

<u>FORM-II (a)</u>
(See Rule 4)

<u>FISCAL POLICY STRATEGY STATEMENT</u>

<u>A. FISCAL POLICY OVERVIEW:</u>

1. The Twelfth Finance Commission (FC-XII) award period (2005-2010) covering 5 years is now coming to an end on 31.3.2010 with the Thirteenth Finance Commission (FC-XIII) award period coming into force from 01.04.2010. The FC-XII period witnessed a period of intense fiscal reforms and consolidation with enactment of the Fiscal Responsibility and Budget Management Act with the fiscal management strongly guided by the fiscal management objectives set out in the Act. The period also witnessed the economic slowdown resulting in some exogenous shocks to the State's economy and the public finance under stress due to the reduced levels of shared taxes in 2008-09 and 2009-10. With the opening of the era of the FC-XIII, it is the time to have introspection on the fiscal performance during the TFC period, to learn lessons for the next period towards better fiscal performance.

2. The TFC period has seen various major changes in the fiscal performance of the States across the country. With the introduction of the 'Debt Consolidation and Relief Facility (DCRF)' providing debt consolidation of central loans (block loans) and debt relief (reduction in repayment of loans and write off of loans on fulfillment of benchmark conditions), the States could benefit the facility which are linked to the States enacting the Fiscal Responsibility Legislation, and satisfying certain benchmark conditions laid down by the Commission and the Ministry of Finance in the Debt Consolidation and Relief Facility (DCRF) (2005-2010). Enactment of Fiscal Responsibility Legislation in 2006-07 by the Government of Mizoram was followed by a consolidation of all block loans of the Government in 2006-07; In terms of DCRF, all block loans released up to 31.03.2004 and outstanding as on 31.03.2006 amounting to **Rs. 258.55 crore** was consolidated by the Ministry of Finance, Government of India and rescheduled for a fresh term of twenty years and the interest rate reset at **7.5 per cent.** The benefit in the form of debt write-off in which the annual repayment of consolidated loan could be written off on satisfying the condition set out in the facilities, is also part of the package. This measure of incentivising the States has a favourable impact to the State Governments resulting in multiple effects of lowering interest payments, lowering the repayment of loans and the benefit of debt waiver. The benefits under DRCF are detailed below:

3. As a result of the consolidation of Block loan, the State has been benefited by lowering of interest on those loans and the resultant lower interest payments. The amount of interest relief accrued during 2006-07 was **Rs. 10.67 crore**. Similarly, interest relief accrued in the following years as follow: 2007-08 – **Rs. 9.78 crore**, 2008-09 – **Rs. 9.30 crore** and 2009-10 – **Rs. 8.33 crore**.

4. Apart from relief on account of consolidation, the State has been benefited on account of debt write-off. The State Government has been eligible to earn a debt write-off of yearly principal repayments of **Rs. 12.93 crore** commencing from 2006-07.

5. Besides the above, the Government is benefited by lower repayments as a result of loan consolidation. The benefits as a result of lower repayments during the award period of TFC (2005-10) is estimated at **Rs. 11.58 crore**.

6. The Revenue Account, which had been in surplus since 2003-04 continues to be in surplus throughout the TFC period. This is a good sign of improving fiscal performance. Otherwise, revenue deficit indicates utilisation of borrowed funds for meeting current revenue expenditure which is not sustainable in the long run. The building up of revenue surplus is very much essential for increasing capital expenditure, which could be supplemented with borrowed funds. Thus, attainment of revenue surplus throughout the TFC Award period has been a good sign of fiscal performance. The revenue surplus, which was **Rs. 106.36 crore** in 2004-05 had been placed **Rs. 339.33 crore** in 2008-09 and **Rs. 256.89 crore** in 2009-10 (RE). The position of revenue surplus in 2007-08 deteriorated due to non-booking of huge amount of central grants in the accounts. Otherwise, the revenue surplus shows a continuous and steady growth during the period.

7. The fiscal deficit, which has been under the close watch of the FRBM Act has all along been slightly above the projected path of reduction. As per the FRBM Act, the fiscal deficit has to be brought down to **3 per cent** of GSDP by 2008-09 for which a fiscal correction path is to be drawn up. The fiscal correction path that was drawn up by the Government of Mizoram in 2006-07 and revised and redrawn annually indicated that the Government could not follow its own correction path due to various reasons. The fiscal deficit, which has been measured as a percentage of the GSDP series adopted by the TFC, stood at **9.64 per cent** in 2004-05. The same stood at **12.38 per cent** in 2005-06 and at **5.37 per cent** in 2006-07. At the time, it was seen with high optimism that the Government may follow the path of reduction of fiscal deficit with the level attained in 2006-07, the year of enactment of the FRBM Act. However, the year 2007-08 presented a total reversal from the correction path and the fiscal deficit was as high as **9.91 per cent**. There were two obvious reasons for the poor fiscal performance in the year. One was non-booking of more than **Rs. 300.00 crore** of central grants in the accounts. Another reason was the expenditure incurred by the Government towards food subsidy to offset the impact of mautam famine, for which huge amount of food subsidy by the Government and other surging expenditure. In the year 2008-09, the account showed a positive picture with fiscal deficit at a mere **2.15 per cent** of GSDP. That could happen due to back booking of central grants for 2007-08 in the accounts of 2008-09. At the time of presentation of budget 2009-10 in October, 2009, the fiscal deficit in 2009-10 was assumed at **8.46 per cent** of GSDP, a very high level mainly due to one time expenditure of **Rs. 200.00 crore** on account of Contingency Fund of the State. The other reasons include expenditure on account of food subsidies and many other items of revenue expenditure.

8. The period has seen positive signs of improvement in State's Own revenues. The State's own tax revenue which was a mere **1.61 per cent** of the GSDP in 2004-05 had followed a secular growth trend. With the implementation of VAT in the State from 1st April, 2005, the collection of State's own tax revenues has received further impetus and improved to **2.02 per cent** of GSDP in 2005-06 and to **2.27 per cent** in 2007-08. It attained a level of **2.48 per cent** in 2008-09 and estimated at **2.43 per cent** in 2009-10 (RE).

9. In 2009-10, the original Budget Estimates has been projected taking into account the likely fiscal shocks on account of the Sixth Pay Revision. However, the Sixth Pay Revision could not be implemented during the year and hence the fiscal pressure has been carried over to the following year.

10. It is noteworthy that the State's collection of own revenues has been buoyant during the period. One reason could be attributable to improvement in collection efficiency in tax and non-tax revenues. The FC-XII had earlier projected the State's Own tax revenues to grow with buoyancy of **1.1**. However, the growth rates of tax revenues in 2005-06, 2006-07, 2007-08 and 2008-09 respectively stood at **39.18 per cent**, **22.81 per cent**, **14.64 per cent** and **22.06 per cent** with average growth rate of **24.67 per cen**t during the first 4 years of the TFC award period. With average growth of GSDP at current prices at **11.61 per cent** during the same period, State's Own Tax Revenues grows with buoyancy of **2.12** which is much higher than the FC-XII projected Own tax buoyancy of **1.1** for the State of Mizoram.

11. A review of the fiscal performance during the FC-XII period shows a variety of exogenous and endogenous factors coming into play in the fiscal scene. The exogenous factor includes the global economic meltdown, resulting in lowering of tax proceeds from the Centre to the States and the corresponding necessity of filling up the fiscal gap with market borrowings in 2008-09. The endogenous factors include the requirement of incurring huge subsidies towards purchase of rice. With the reduction of the PDS Quota of the State by the Government of India, the Government had been compelled to purchase rice out of additional quota of economic cost bearing differential cost of rice between economic cost and issue price. The total expenditure of the Government on account of this was estimated at **Rs. 85.33 crore** in the Revised Estimates for 2008-09. The expenditure on 2008-09 was **Rs. 74.45 crore**.

B. FISCAL POLICY FOR 2010-11.

12. The fiscal policy dimensions for 2010-11 and over the medium term will largely be guided by the levels of devolution of various resources to the State and other stipulations of the Thirteenth Finance Commission which determines the finances of the State Government for the next 5 years. The main recommendations of FC-XIII towards fiscal consolidation and reforms include-

(a) Bringing down the combined outstanding debt of the Central and State Governments at 68 per cent by the terminal year, i.e. 2014-15. The Central Government's debt will come down to 45 per cent of GSDP and combined debt

of the State Governments will come down to 25 per cent by 2014-15. In the case of Mizoram, the debt stock should go down to 74.8 per cent by 2014-15.

(b) Introduction of debt relief by way of waiver of all Central Loans (excluding block loans and NSSF Loans)

(c) Interest resetting of all NSSF loans availed up to 2006-07 and outstanding as on 2009-10 to 9 per cent.

(d) Availing of the above relief is subject to the State Governments amending their FRBM Acts in line with the recommendations of the Commission.

13. In the Indian fiscal federalism, the levels of devolution of resources from the national entity determine the fiscal position of the Sub-national entities. Being a resource deficit State, the Government of Mizoram also is depending to a large extent on the levels of devolution of resources from the Finance Commissions on Non-Plan Account and the Planning Commission on Plan Account. On the recommendation of the FC-XIII, the overall devolution for the State of Mizoram for the entire period of 2010-11 to 2014-15 is **Rs. 8805.30 crore** while the recommended amount of FC-XII was **Rs. 4660.91 crore** registering an increase of **88.92 per cent**. With this increase, the Government of Mizoram will be able to tide over its financial position and meet the various expenditure requirements from the available resources.

14. The recommendation of FC-XIII to write off all CSS loans will result in the easing the pressure on interest payment on central loans. Since CSS loans carry high interest rates, write off of these loans will result in lowering of interest payments and repayment of the principal amounts of loan. This will have a very favourable effect in creating fiscal space which would otherwise be met fully out of the borrowed funds.

15. The FC-XIII's recommendation of interest resetting **9.5 per cent** of all the NSSF loans will also result in lowering of interest payments and help create fiscal space. The combined effect of these two debt relief measures is **Rs. 79.51 crore** which will considerably helped in creating fiscal space.

16. On the conditionalities imposed by FC-XIII and as duly accepted by the Government of India, the State Government should amend its own FBRM Act to achieve the targets set out in the recommendation. In respect of the State of Mizoram, it has been recommended that fiscal deficit should be reduced to **3 per cent** of GSDP by 2014-15, and the FRBM Act should be suitably amended. In this connection the Mizoram FRBM Act was originally enacted with a target of reducing fiscal deficit to **3 per cent** of GSDP by 2008-09 and an extended period to 2010-11 by an amendment in 2009. This further extension of the period by FC-XIII keeping in view of the actual fiscal position will not result in laxity on the part of the Government of Mizoram. The Government will redraw its own path of fiscal correction so as to achieve the **3 per cent** fiscal deficit as early as possible.

17. Another issue calling for serious challenge to the Government is the requirement of bringing down the debt stock to **74.80 per cent** by 2014-15 as

recommended by the Commission. This will call for serious effort. Due to the small GSDP base, determining the debt stock with GSDP as denominator brings injustice to the State. Measured in terms of other indicators and levels of interest payments, the position of the State is not worse than that of other States. However, the continued measurement of debt stock as a percentage of GSDP has its own merit of measuring the State's ability to sustain its debt stock relative to the economy. Thus, the level of debt stock relative to GSDP indicates the possibility of sustaining the debt in the economy.

18. However, the State Government has slowly achieved reduction of debt stock in terms of percentage to GSDP. The debt stock, as a percentage of GSDP, which stood at a high **93.41 per cent** at the commencement of FC-XII, slowly goes down and reached **85.58 per cent** in 2008-09 and is estimated at **78.95 per cent** in 2009-10 (BE). It is further estimated at **78.44 per cent** in 2009-10 (RE) and again at **70.78 per cent** in 2010-11 (BE).

19. The State Government's effort in reducing the debt stock will be achieved by the following lines:

a) The benefit of waiver of all CSS loans on the recommendations of FC-XIII will help reduce the debt stock. FC-XIII indicated the amount as **Rs. 75 crore** as CSS loans of the Government of Mizoram as at the end of 2009-10 to be written off.

b) The pre-payment of high cost loans under the ADB assisted MPRMP will help in reducing the debt stock.

c) One reason for accumulation of debt stock is debt stock on account of loans under Public Accounts. The Government will slowly put a check on the increase of debt stock under Public Accounts.

d) The Government of Mizoram has been following a conscious policy of borrowing within the budget only to the extent of financing its fiscal deficit. This tightening of fiscal belt results in slowly reducing the debt stock relative to GSDP. That is to say, if the Government could contain the fiscal deficit at 3 per cent of GSDP over a certain period, the annual incremental net borrowings will be a mere 3 per cent of GSDP, the debt stock relative to the GSDP will be reduced annually by the difference between the growth of GSDP and the level of fiscal deficit.

20. Issues of challenge confronting the Government in 2010-11 will be the increased expenditure on account of sixth pay revision of the employees. Since the Government could not implement the sixth pay revision during the current year, the Government postpones the fiscal pressure in future.

21. Another issue confronting the Government in 2010-11 will include the task of successfully taking off its electoral promises of the Ministry in development calling for increased plan Expenditure. Besides, the flagship programme in 'New Land Use

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

22. The fiscal shocks on account of food subsidy will continue. Since the Government could not risk drastic reduction of supply of rice from the Food Corporation of India due to the shortage of local food supply in the State, this will need to be carried on for a few more years. Thus, even with the losses that the Government will have to bear in food trading, we are under compulsion to continue the food subsidy till such time the Government could make alternative arrangements.

23. On the positive side, the Government will get additional resource in the form of increased devolution of resources. The Government will be able to get increased share in Central Taxes after downward estimation in 2008-09 and 2009-10. The State's share in Central Taxes for 2010-11 is estimated at **Rs. 563.06 crore** in line with the Union Budget in February, 2010. Non-Plan Revenue Deficit Gap Grant also is slightly higher and estimated at **Rs. 715 crore** in 2010-11. The increased resources will greatly benefit the State Government.

24. In line with the above stipulations, the total Revenue Receipts has been estimated at **Rs. 3253.87 crore** in 2010-11. Tax Revenues has been estimated at **Rs. 681.32 crore** of which State's Own Tax Revenues is **Rs. 118.26 crore**. Share in Central Taxes has seen a big jump with **Rs. 563.06 crore** in lines with the Union Budget in February, 2010. State's Own Non-Tax Revenues is estimated at **Rs. 166.37 crore** and Grants-in-aid from the Central Government at **Rs. 2406.18 crore**.

25. The Non-Plan Expenditure of the State has been at **Rs. 2912.23 crore** in 2010-11 (BE). The State's Annual Plan for 2010-11 has been maintained at the level of **Rs. 1250.00 crore**. With other plan expenditure under various grants and revalidated amounts of the previous year, the total plan expenditure has been estimated at **Rs. 1430.85 crore**. Thus, the Total Expenditure taken together for 2010-11 is estimated at **Rs. 3719.66 crore**.

26. Thus, with the various expenditure commitments indicated above, we will be able to keep the revenue surplus at **Rs. 341.64 crore** and the fiscal deficit at **Rs. 41.84 crore** which is **0.88 per cent** of GSDP.

27. The Government recognizes that the fiscal scene now a day is the period of globalization wherein the State Government is slowly exposed to the benefits and risks in the global economic environment. The exogenous factors could not altogether be ignored. The need to find alternative resources and the benefits of knowledge and expertise in working with external agencies has compelled the Government to work with the multilateral agencies. The signing of 2 important loan agreements viz. ADB assisted Programme '*Mizoram Public Resource Management Programme (MPRMP)'*

and ADB assisted Project *'North-Eastern Region Capital Cities Development Investment Programme (NERCCDIP)'* during 2009-10 bear testimony to the Government's efforts towards this end.

28. Our guiding principle will continue to be attainment of the objectives of our FRBM Act and receive the benefits of fiscal reforms facility avail the benefits under FC-XIII. This will help the State Government managing finances with FRBM targets and guideposts and avail the benefits of fiscal management as recommended by FC-XIII.

29. The major fiscal policy initiatives that the Government will pursue in 2010-11 are laid down in brief below:

(1) Tax Policy:

30. It will be the endeavour of the Government to continuously improve the Tax-GSDP ratio ad increase the contribution of State's tax. It has been noted that the growth of State's tax revenues register a much higher buoyancy than the TFC's projection and the average growth of tax revenue during the 4-year period of 2005-06 to 2008-09 is **24.67 per cent** . We will continue to take measures to sustain the growth of tax revenues.

31. In 2007-08, the tax-GSDP stood at **2.27** and in 2008-09 (Pre -Actual), the tax-GSDP ratio improved to **2.48** which is a perceptible improvement in the State's own tax revenues. In 2008-09, the total tax collection is **Rs. 94.62 crore** despite the tax concession on VAT for POL. In 2009-10 (BE), we had set a very ambitious target of Tax Revenues at **Rs. 116.29 crore**, with tax-GSDP ratio at **2.73**. In keeping with this, we had estimated total State's tax in 2010-11 at **Rs. 118.26 crore** which is **2.47 per cent** of GSDP. However, the Government is determined to maintain the increasing trend of the tax-GSDP ratio by increasing the tax collection efficiency and better tax compliance. Towards this end, the Government will pursue the following measures in 2010-11:

a) *The process of restructuring of Taxation Department will be carried on for improving the tax administration and to bring about improvement in tax collection efficiency. The process of VAT auditing will also be institutionalized by introducing VAT Audit Manual and by intensive capacity building of the tax officials.*

b) *The potential in collection of land revenues will be taken due consideration with focus on restructuring of the Department, streamlining the tax collection system and improving the land record management and assessment and collection of arrears. This will be coupled with exhaustive process of capacity building of the officials involved in administration of land revenue and computerization of the records. This is expected to bring about higher collection of land revenue as well as realization of the arrears accumulating over the years.*

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

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

(2) Expenditure Policy:

33. Coming to the end of FC-XII with the surging expenditure unmatched by incremental devolution of resources, the State Government has faced the fiscal imbalance in 2009-10. This had happened in the last few concluding years of the previous Finance Commissions. This imbalance has made the Government unable to draw up an expenditure plan to fulfill the mandates of the FRBM Act and as stipulated in the Fiscal Correction Path.

34. The year 2010-11 heralds the beginning of award period of FC-XIII and hence the Government is having rooms for fiscal maneuverability with the increased level of devolution of resources. This has resulted in availability of fund on Non-Plan Account in the first place, and then makes resources available for financing the Plan Expenditure. With the availability of more resources, the Government will make the best use of the available resources and will focus on outcome oriented expenditure so that the benefits of public spending reach the targeted population.

35. In 2010-11, the Government will take the help of the ADB assistance in MPRMP and will take up serious expenditure management. The Treasuries of Mizoram will be fully computerized. Performance Budgeting will be put in place, the system of Medium Term Expenditure Framework (MTEF) will be put in place in selected Departments; the system of Project Appraisal, Monitoring and Evaluation will also be institutionalized. These measures will bring along qualitative improvements in the public spending and the various processes involved in budgeting and tracking of expenditure.

36. The prime concern of the Government's expenditure will continue to be the focus on increased spending for capital investments for laying development infrastructure. Efforts will be on to contain revenue expenditure and increasingly utilize resources for meeting capital expenditure.

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

37. The Government has been following a conscious policy on borrowings in containing the net borrowings so that the outstanding debt stock is maintained at a sustainable level relative to GSDP and Revenue Receipts. The FRBM Act, 2006 as amended in 2009 also provides that fiscal deficit will be contained to a level of **3 per cent** of GSDP in 20010-11. The Thirteenth Finance further postpones attainment of 3

per cent by 2014-15. However, the Government has been making efforts to contain the borrowings. With that in view, the Government has been containing the net borrowings at the targeted level of fiscal deficit so that the Government will not borrow in excess of the requirement for financing the fiscal deficit. Generation of revenue surplus also help in checking the use of borrowed funds for meeting current revenue expenditure. With containment of the borrowings, the Government will pursue a policy of reducing revenue expenditure relative to the total expenditure so that enough resources could be made available for capital investment.

38. With the FC-XIII's requirement of reducing debt stock relative to GSDP at **74.80 per cent** by 2014-15, the Government needs to exert utmost care in the deficit financing. This will also help in slowly reducing the interest burden. The Government also focuses attention towards reduction of weight average interest rates on the borrowings. This will, in the long run have the effect of reducing the expenditure on account of interest payments. Accordingly, the Government will shift its borrowings in favour of low-cost RIDF loan of NABARD for creating infrastructure in the rural and agriculture sectors.

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

40. The Government's investments in the PSUs, Co-operative Banks and Societies etc. in equities in the past without scope for receipt of dividend and the continued budgetary support of these entities is one issue of concern in the State finance. The Government will slowly take a fresh look at the functioning of the PSUs under the ADB assisted MPRMP and with the expertise of the PSE Restructuring Experts and with the financial support of the ADB, the Government will explore the various policy options over the medium term including the options of restructuring or of closure of PSEs.

(4) Consolidated Sinking Fund:

41. The Government builds up a sizeable amount in the Consolidated Sinking Fund accumulating as Reserve Fund of the State's Public Account. With the Revised Scheme coming in force from in 2006-07, the Government continues to invest funds in the Sinking Fund to generate funds for meeting its future repayment obligations of loans contracted in the past. The principal already invested in the Fund as on 31.03.2009 is **Rs. 63.25 crore**. In 2009-10, the Government invests **Rs. 16.00 crore** towards augmenting the Fund. The Government will invest **Rs. 16.50 crore** in 2010-11, which is approximately **0.5 per cent** of estimated outstanding liabilities as on 31.03.2010.

(5) Contingent and Other Liabilities:

42. Realising the importance of efficient management of contingent liabilities, the Government has set up a Guarantee Redemption Fund (GRF) in May, 2009 with initial corpus fund of **Rs. 50.00 lakh**. The Government of Mizoram has also been following a conscious policy of restricting the size of the contingent liabilities The Government has been keenly pursuing a policy for streamlining the process of handling contingent liabilities in the State's finance. A ceiling was also laid down that fresh guarantees in a year should not exceed **3 per cent** of GSDP. The Government will augment the corpus fund by investing additional amount of **Rs. 50.00 lakhs** in 2010-11. The rating exercise, which has been completed by CRISIL Ltd. will help the Government in collecting guarantee fees.

(6) Levy of User Charges:

43. The practice of mass subsidy in the services extended by the Government is one issue that is costing the Government dearly. This has also resulted in inefficiency of public spending. These issues need to be carefully considered keeping the positive impacts vis-à-vis the negative impacts and dependency of the general public in the Government on the one hand and inefficiency of public spending. The Government will slowly move towards levying of optimum level of user charges and differential subsidy so that proving of services to the people vis-à-vis levying of user charges for generating funds for maintenance of assets has become slowly sustainable in the long run.

C. STRATEGIC PRIORITIES FOR THE ENSUING YEAR:

44. The priority of the Government will continue to follow is its commitment to adhere to the stipulations in the FRBM Act successfully without sacrificing the requirements of expenditure for capital investments. Even though the FC-XIII postponed the time of achieving 3 per cent fiscal deficit of GSDP by 2014-15, the Government will attempt at achieving the target as early as possible. The availability of resources under FC-XIII will enable the Government to bring about improved fiscal performance and increased investment in critical developmental needs of the people.

D. POLICY EVALUATION:

45. The year 2007-08 did not give us the desired results in terms of measurable fiscal indicators due to short booking of grants from the Central Government. However, in the year 2008-09 the fiscal position appears very much convincing and gives the desired results in terms of fiscal indicators. Revenue surplus is **Rs. 339.33 crore** and fiscal deficit comes down to **Rs. 94.25 crore**. The favourable fiscal indicators are mainly due to the back loading of receipts for the year 2007-08 in the accounts of 2008-09. The fiscal shocks in reduced devolution of central taxes, expenditure on corpus fund of the Contingency Fund of the State and other revenue expenditure, with no corresponding resources resulted in fiscal imbalance in 2009-10, being the terminal year of FC-XII. However, the Government's attempts towards elimination of the revenue deficit and corresponding generation of revenue surplus brought about increase of resources for capital expenditure as the level of borrowings for financing capital expenditure are put to a check by the requirement of containing

the fiscal deficit. As a result, the Government's expenditure has been guided by the need to generate revenue receipts on the one hand and corresponding containment of revenue expenditure. However, with the limitations in containing the revenue expenditure, the Government's policy of finding alternative sources for funding development investments have slowly paid dividends in working with multilateral agencies bringing in external financial resources accompanied by transfer of knowledge and expertise. At the overall, the fiscal management principles in the post-FRBM are strongly guided by the provisions of the Act and the targets set out therein and have slowly brought about improvements in expenditure management. The commencement of FC-XIII period with higher deviation of resources is expected to bring about improvements in the fiscal position.

E. RATIONALE FOR POLICY CHANGES:

46. There are no specific policy changes as such. However, the commencement of the FC-XIII award period will necessitate slight changes in the policy and time frame of reduction of debt stock and the fiscal reforms initiatives introduced by it, the Government will slowly pursue the policy initiatives to achieve the stipulations contained in the recommendations. The Government may also amend the FRBM Act to suit the various recommendations of the Commission. Needless to say that the Government will continue to be strongly guided by the principles of fiscal management with numerical targets outlined in the FRBM Act as may be amended. The need to improve the State's own revenues is the pressing need of the present time so that the State Government may be able to cope up with the requirement of surging expenditure and for meeting its developmental commitments. Towards this end, the Government will continue to focus towards Public Resource Management, Capacity Building and Tax & Non-Tax Reforms so as to achieve the desired objectives. Correspondingly, the revenue expenditure needs to be curtailed so as to make revenues available for generation of capital assets.

47. In the light of the changes in the fiscal policy and management during the last few years, the Government of Mizoram has redrawn a Fiscal Correction Path in the light of the 2007-08 (Accts.), 2008-09 (Accts.), 2009-10 (BE), 2009-10 (RE) and 2010-11 (BE) including projections for the next two years in a format as outlined by the Ministry of Finance, Government of India in its guidelines for implementation Debt Consolidation and Relief Facility recommended by the Twelfth Finance Commission. The Fiscal Correction Path is given in **Form-II (b)**. Selected fiscal indicators are also appended herewith in Forms **D-1, D-2, D-3, D-4 and D-5**.

FORM II (b)

Outcome indicators of the State's Own Fiscal Correction Path

	Items	*2007-08 (Actual)*	*2008-09 (Actual)*	*2009-10 (BE)*	*2009-10 (RE)*	*2010-11 (BE)*
A	**STATE REVENUE ACCOUNT :**					
1	Own Tax Revenue	77.51	94.62	116.29	116.69	118.26
2	Own Non-Tax Revenue	130.30	158.67	181.14	143.02	166.37
3	***Own Tax+Non Tax Revenue (1+2)***	***207.81***	***253.29***	***297.43***	***259.71***	***284.63***
4	Share in Central Taxes & Duties	363.36	383.39	393.40	393.40	563.06
5	Plan Grants	789.99	1281.83	1313.50	1815.95	1599.44
6	Non-Plan Grants	678.58	734.62	1004.88	744.97	806.74
7	***Total Central Transfer (4 to 6)***	***1831.93***	***2399.84***	***2711.78***	***2954.32***	***2969.24***
8	***Total Revenue Receipts (3+7)***	***2039.74***	***2653.13***	***3009.21***	***3214.03***	***3253.87***
9	Plan Expenditure	648.99	740.58	985.95	1028.12	968.31
10	Non-Plan Expenditure	1259.40	1573.22	1845.74	1929.03	1943.92
	of which					
11	Salary Expenditure	588.26	739.06	1034.77	1034.78	1136.89
12	Pension	97.14	126.05	148.41	148.41	148.41
13	Interest Payments	208.01	225.61	239.90	258.73	246.01
14	Subsidies - General	-	-	-	-	-
15	Subsidies - Power	-	-	-	-	-
16	***Total Revenue Expenditure (9+10)***	***1908.39***	***2313.80***	***2831.69***	***2957.15***	***2912.23***
17	Sal+Interest+Pensions (11+12+13)	893.41	1090.72	1423.08	1441.92	1531.31
18	as % of Revenue Receipts (17/8)	43.80	41.11	47.29	44.86	47.06
19	***Revenue Surplus/Deficit (8 -16)***	**131.35**	**339.33**	**177.52**	**256.88**	**341.64**

	Items	*2007-08 (Actual)*	*2008-09 (Actual)*	*2009-10 (BE)*	*2009-10 (RE)*	*2010-11 (BE)*
B	**CONSOLIDATED DEBT :**					
1	Outstanding debt and liability	3062.46	3259.82	3368.38	3346.83	3384.22
2	Total Outstanding guarantee	131.97	114.25	118.26	121.26	121.26
	[of which guarantees on account of budgeted borrowing and SPV borrowing]					
C	**CAPITAL ACCOUNT :**					
1	Capital Outlay	544.24	441.04	393.87	647.90	388.48
2	Disbursement of Loans and Advances	6.12	17.41	25.17	25.17	25.00
3	Recovery of Loans and Advances	27.52	24.86	30.01	30.01	30.01
4	Other Capital Receipts	-	-	-	-	-
5	Transfer to Contingency Fund	-	-	200.00	200.00	-
D	**GROSS FISCAL DEFICIT :**	-391.49	-94.26	-411.51	-586.18	-41.83
	$[(A_8+C_3+C_4)-(A_{16}+C_1+C_2+C_5)]$					
E	**GSDP (Rs. crs.) at current prices**	3411.66	3809.16	4266.73	4266.73	4781.23
	Actual/Assumed Growth Rate (%)	14.29	11.65	12.01	12.01	12.06
F	**INDICATORS AS % OF GSDP**					
1	Own Tax Revenue (A1/E)	2.27	2.48	2.73	2.73	2.47
2	Own Non-Tax Revenue (A2/E)	3.82	4.17	4.25	3.35	3.48
3	Total Central Transfer (A7/E)	53.70	63.00	63.56	69.24	62.10
4	Total Revenue Expenditure (A16/E)	55.94	60.74	66.37	69.31	60.91
5	Revenue Surplus/Deficit (A19/E)	3.85	8.91	4.16	6.02	7.15
6	Gross Fiscal Deficit *	9.91	2.15	8.46	12.05	0.87
7	Outstanding Debt and Liabilities (B1/E)	89.76	85.58	78.95	78.44	70.78

* GSDP estimated by TFC taken into account for calculating Gross Fiscal Deficit as a percentage of GSDP up to 20 series are 2006-07 - Rs. 3557.00 cr., 2007-08 - Rs. 3949.00 cr., 2008-09 - Rs.4383.00 cr. and 2009-10 - Rs. 4865 State's GSDP series has been taken for measuring the GFD relative to GSDP.

FORM D - 1

(See Rule 9)

SELECT FISCAL INDICATORS

	Items	2008-2009 (Actuals)	2009-2010 (RE)
1	Gross Fiscal Deficit as Percentage of GSDP	2.15	12.05
2	Revenue Deficit (-)/Surplus (+) as Percentage of GSDP	8.91	6.74
3	Revenue Deficit (-)/Surplus (+) as Percentage of TRR	12.79	7.99
4	Total Liabilities - GSDP Ratio (%)	85.58	78.44
5	Total Liabilities - Total Revenue Receipts (%)	122.87	104.13
6	Total Liabilities - State's Own Revenue Receipts (%)	1286.99	1288.68
7	State's Own Revenue Receipts - Revenue Expenditure (%)	10.95	8.78
8	Capital Outlay as Percentage of Gross Fiscal Deficit	467.90	110.53
9	Interest Payment as Percentage of Revenue Receipts	8.50	8.05
10	Salary Expenditure as Percentage of Total Revenue Receipts	39.23	41.83
11	Pension Expenditures as Percentage of Total Revenue Receipts	4.75	4.62
12	Non-Developmental Expenditure as Percentage of Aggregate Disbursement	28.71	26.15
13	Gross Transfer from the Centre as Percentage of Aggregate Disbursement	83.66	73.74
14	Non-Tax Revenue as Percentage of Total Revenue Receipts	5.98	4.45

FORM D - 2

(See Rule 9)

A. COMPONENTS OF STATE GOVERNMENT LIABILITIES						
Category	**Raised during the Fiscal Year**		**Repayment/Redemption during the Fiscal Year**		**Outstanding Amount (End-March)**	
	2008-09 (Actuals)	**2009-10 (RE)**	**2008-09 (Actuals)**	**2009-10 (RE)**	**2008-09 (Actuals)**	**2009-10 (RE)**
Market Borrowings	**59.60**	**155.29**	**29.97**	**143.04**	**867.42**	**879.67**
(a) Market Loans	*59.60*	*155.29*	*29.97*	*143.04*	*867.42*	*879.67*
(b) Power Bonds	-	-	-	-	-	-
Loans from Centre	**6.19**	**25.21**	**18.23**	**18.63**	**546.45**	**553.02**
(a) Block Loans	*4.98*	*25.21*	*15.09*	*15.69*	*299.91*	*309.43*
(b) Other Loans	*1.21*	-	*3.14*	*2.94*	*246.54*	*243.59*
Special Securities issued to the NSSF	-	**12.00**	**2.42**	**3.75**	**138.32**	**146.57**
Institutions/Banks	**39.98**	**50.00**	**45.67**	**74.01**	**457.44**	**433.43**
(a) LIC	*20.00*	*20.00*	*23.45*	*22.06*	*282.39*	*280.33*
(b) NABARD	*13.23*	*30.00*	*9.65*	*11.07*	*59.98*	*78.91*
(c) NCDC	*0.05*	-	*1.87*	*1.89*	*0.24*	*-1.64*
(d) Other Institutions	*6.70*	-	*10.70*	*38.99*	*114.83*	*75.83*
WMA/OD from RBI	-	**136.74**	-	-	**27.21**	**27.21**
Provident Funds, etc.	**315.15**	**456.86**	**127.27**	**372.91**	**1222.98**	**1306.93**
(a) Government Provident Fund	*307.96*	*454.36*	*124.80*	*370.41*	*1158.75*	*1242.70*
(b) Insurance & Pension Fund	*7.19*	*2.50*	*2.47*	*2.50*	*64.23*	*64.23*
Other Liabilities	-	-	-	-	-	-
TOTAL	**420.92**	**836.10**	**223.56**	**612.34**	**3259.82**	**3346.83**

B. WEIGHTED AVERAGE INTEREST RATES ON STATE GOVERNMENT LIABILITIES

(Percent)

Category	**Raised during the Fiscal Year**		**Outstanding Amount (End-March)**	
	2008-09 (Actuals)	**2009-10 (RE)**	**2008-09 (Actuals)**	**2009-10 (RE)**
Market Borrowings				
(a) Market Loans	8.64	8.43	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	-	9.50	9.82	9.82
Institutions/Banks				
(a) LIC	9.00	9.00	7.70	7.70
(b) NABARD	6.50	6.50	6.50	6.50
(c) REC	12.00	12.00	10.28	10.28
(d) PFC	-	-	-	-
(e) NCDC	-	-	-	-
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, 08	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, 09	Col (4)/ Outstan-ding stock of SLR Borrowings (%)	Additions during the current year	Withdrawals from CSF during the current year	Outstanding balance in CSF at the end of current year/beginning of ensuing year Tentative 31st March, 10	Col. (S) Outstanding stock of SLR Borrowings (%)
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*
48.24	15.00	-	63.24	-	16.00	-	79.24	-

FORM D-4
(See Rule 9)

GUARANTEES GIVEN BY THE GOVERNMENT

Category	Maximun Amount Guarantee during the year 2009-2010 (Rs. In crore)	Outstanding at the begining of the year (Rs. in crore)	Additions during the year (Rs. in crore)	Reductions during the year (Rs. in crore)	Invoked during the year (Rs. Crore)	
					Discharge	Not Discharged
1	2	3	4	5	6	7
Ordinary	66.93	131.97	11	24.71	-	-

Outstanding at the end of the year 2008-2009 (Rs. Crore)	Guarantee Commission or Fee (Rs. Crore)		Remarks
	Receivable	Received	
8	*9*	*10*	*11*
121.26	-	-	

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			
High Risk			
Medium Risk			
Low Risk			
Very Low Risk			
Total Outstanding			

Note : Even though the exercises of assessment of Risk-Weight in the State Government's guaranteed loan is already completed by CRISIL Ltd., assigining risk-wights will be carried out in due course.