सत्यमेव जयते
GOVERNMENT OF MIZORAM

MEDIUM TERM FISCAL POLICY STATEMENT

(As required under Section 6(6) of The Mizoram Fiscal Responsibility and Budget Management Act, 2006)

GOVERNMENT OF MIZORAM
2019 - 2020

(As laid before the 8th Mizoram Legislative Assembly on 13th June, 2019)

FORM – I
(See Rule 3)
MEDIUM TERM FISCAL POLICY STATEMENT

A. FISCAL INDICATORS – ROLLING TARGETS

Sl. No	Item	2017-18 (Actuals)	2018-19 (Budget Estimates)	2018-19 (Revised Estimates)	2019-20 (Budget Estimates)	Target for next Two Years	
						2020-21 (Proj)	2021-22 (Proj)
1	Revenue Deficit(-) / Surplus(+) as a % of GSDP	9.58	7.50	2.39	5.58	6.03	6.51
2	Fiscal Deficit as a % of GSDP	-1.81	-1.14	-7.60	2.06	-2.23	-2.40
3	Total outstanding Liabilities as a % of GSDP	41.15	34.19	35.89	32.66	33.64	36.33
4	Total outstanding Liabilities as a % of Total Revenue Receipt(TRR)	85.08	88.52	92.14	85.79	81.82	88.36
5	Interest Payments as a % of Total Revenue Receipt(TRR)	3.95	4.37	4.50	3.65	3.65	3.93

Note : *GSDP is the Gross State Domestic Product at factor cost at current prices.*

The Twelfth Finance Commission (2005-2010) had mandated the enactment of the Fiscal Responsibility and Budget Management Act for the state governments. In line with these fiscal reforms, Mizoram Fiscal Responsibility and Budget Management (MFRBM) Act, 2006 was legislated and enacted to be the guidepost for the fiscal management of the state and the Mizoram FRBM Rules was put in place in 2007. The enforcement of this act and rules has put a tight fiscal belt in the fiscal management of the state.

2. The Thirteenth Finance Commission was constituted by the President on November 13, 2007 to give recommendations on specified aspects of centre-state fiscal relations during 2010-15. The Thirteenth Finance Commission made various recommendations relating to the sharing of net proceeds of Union taxes between centre and states, grants-in-aid of revenue of states under Article 275, financing of relief expenditure and roadmap for fiscal consolidation. In short, the recommendations of the successive Finance Commissions determined the fiscal relationship between the centre and the state governments. To push the FRBM Act further, the Thirteenth Finance Commission (2010-2015) introduced many important fiscal reform features which, *inter alia,* include reduction of Revenue Deficit to zero and Fiscal deficit to 3 percent of GSDP by 2014-15.

3. The Fourteenth Finance Commission (FC-XIV) was constituted by the President under Article 280 of the Constitution on 2nd January 2013 to make recommendations for the period 2015-2020. Dr. Y. V. Reddy was appointed Chairman of the Commission.

4. The Commission reviewed state of the finances, deficit and debt levels of the Union and the states, keeping in view, in particular, the fiscal consolidation roadmap recommended by the Thirteenth Finance Commission and suggested measures for maintaining a stable and sustainable fiscal environment consistent with equitable growth including suggestions to amend the Fiscal Responsibility and Budget Management Acts currently in force and while doing so, the Commission considered the effect of the receipts and expenditure in the form of grants for creation of capital assets on the deficits; the Commission also considered and recommended incentives and disincentives for states for observing the obligations laid down in the Fiscal Responsibility and Budget Management Acts.

5. The salient features of the fiscal reforms as introduced by the Fourteenth Finance Commission may be highlighted as under:

a. Share of taxes to the states raised from 32% to 42%
b. Revenue Deficit Grant awarded to 11 states
c. No distinction between Plan fund and Non-Plan fund
d. No special category states
e. No recommendation regarding state's specific needs
f. No recommendation for establishment of new districts
g. No recommendation for maintenance of road & bridges and buildings, maintenance/protection of forest, police modernization (to be met from state's fiscal space)
h. No specific recommendation was made under Social Sector such as, Elementary Education, Health, Drinking water and sanitation *(a separate institutional arrangement be introduced)*
i. No recommendation for Lok Ayukta.
j. No performance/basic grants for local bodies like Village Councils and Autonomous District Councils
k. New Institution is recommended to identify and recommend resources for inter-state infrastructure scheme in the North-Eastern States.
l. New institutional arrangement is also recommended involving other fiscal transfer.

6. The Commission also introduced the following fiscal rules -

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.

iii. The two options under these flexibility provisions can be availed of by a state either separately, if any of the above criteria is fulfilled, or simultaneously if both the above stated criteria are fulfilled. Thus, a state can have a maximum fiscal deficit-GSDP limit of 3.5 per cent in any given year of the Fourteenth Finance Commission.

iv. The flexibility in availing the additional limit under either of the two options or both will be available to a state only if there is no revenue deficit in the year in which borrowing limits are to be fixed and the immediately preceding year. If a state is not able to fully utilise its sanctioned borrowing limit of 3 per cent of GSDP in any particular year during the first four years of our award period (2015-16 to 2018-19), it will have the option of availing this un-utilised borrowing amount (calculated in rupees) only in the following year but within the award period of Fourteenth Finance Commission.

7. In light of the broad fiscal framework designed by Fourteenth Finance Commission, the Government of Mizoram will also take on reforms on the fiscal front for long term fiscal stability. The government clearly understands that being an economic agency, the long term fiscal framework rests on finding enough resources to meet the investment requirements. In keeping with the recommendations of the Commission on fiscal reforms, the government's focus on fiscal management will continue to be guided by the following principles -

a. Continuation of the process of fiscal reforms and consolidation; generation of revenue surplus and reduction of fiscal deficit.
b. Improvement of Own Tax Revenues, Own Non-Tax Revenues and Own Tax-GSDP ratio.
c. Improvement of the quality of expenditure
d. Increment of allocation of fund in socio-economic sectors
e. Increment of capital investment in infrastructure sector
f. Minimization of subsidy only to the needy and deserving section of the society, especially for TPDS/Food Security Act

g. Introduction of austerity measures so as to cut down unnecessary spending of public money.

8. The fiscal risks that the Government will have to face over the medium term may be delineated as below –

a. The surging revenue expenditure which is likely to pose a threat to the government's ability to maintain revenue surplus for financing capital investments. The government will need to devise innovative means to garner additional resources to match the increasing revenue expenditure.
b. Limitations in the growth of the economy due to cyclical factors, nationally and globally.
c. Limitations in increase of tax base, upward revision of rates, etc.
d. Recurring and non-recurring expenditure in connection with the Medical College.

9. Towards improving *Own Tax Revenues, Own Non-Tax Revenues and Own Tax-GSDP ratio*, the government has taken up measures such as -

a. Restructuring of Taxation Department by carrying out the reorganization package so that tax administration is improved to bring about improvement in tax collection.
b. Streamlining of tax collection system and computerization of records and collection system. Waive of penalty for a certain period of time for late payment, especially road tax, so as to increase collection.
c. Capacity building of the officials involved and introduction of Management Information System as well as online payment for various taxes.
d. Increasing the selling price of food grains under TPDS with minimal impact to the general public and eventually replacing the TPDS with the Food Security Act.
e. Increasing water user charge so as to compensate for the unrecovered expenditure incurred for operation and maintenance of the existing water pumps and its distribution (supply) systems.

f. Evolving more efficient collection system of Power Tariff as the same had been raised by the JERC for Manipur and Mizoram.

g. Minimizing expenditure incurred by the loss making Public Sector Enterprises (PSEs) by closing down ZENICS, MAMCO etc. and downsizing and restructuring of ZIDCO and MIFCO.

10. The government has certain expenditure commitments in the form of development expenditure on specified schemes but the government will keep close watch on outcome oriented expenditure so that the benefits of public spending reach the targeted populace. With higher devolution as per the recommendations of the Fourteenth Finance Commission, higher inflow of resources is anticipated and with improving fiscal management, the government will be able to increase the expenditure on critical investments.

11. Other medium term measures on expenditure management will include computerization of treasuries, institutionalization of Performance Budgeting, Medium Term Expenditure Framework (MTEF) in selected departments and Project Appraisal, Monitoring and Evaluation system. When fully put in place, these measures will bring along qualitative improvements in the public spending and the various processes involved in budgeting and tracking of the government's expenditure.

12. Another issue of prime concern is the future borrowings of the Government. The government's borrowing need to follow a conscious policy of containing the net borrowings to make sure the outstanding debt stock vis-à-vis GSDP and Revenue Receipts is slowly brought down. Focus has also been laid on containing the fiscal deficit and the debt stock of the Government. The Government will, therefore, continue to work with multilateral institutions to mobilize external resources as well as private capitals for investments so that the possible shortage of funds due to limited borrowings could be supplemented by alternative resources.

13. The Government will also consciously move to reduction of interest payment burden by moving towards reduction of weighted average interest rates as well as reducing high cost loans over the medium term. The Structural

Adjustment Loan from the Asian Development Bank was of great help in reducing the stock of high cost debt of 9 per cent and above. This has, in the long run had a positive effect of reducing the expenditure on account of interest payments. The Government is slowly shifting its borrowings in favour of low-cost RIDF loan of NABARD for creating infrastructure in the rural and agriculture sectors.

14. The Government will continue to invest in the Consolidated Sinking Fund and Guarantee Redemption Fund which will help build up Reserve Funds of the State in the Public Account for paying off its future direct and contingent liabilities.

15. Considering all the pros and cons, strength and weakness of the fiscal consolidation process of the state and the assumptions in the fiscal policy framework over the medium term, the budget 2019-20 has been prepared. As per the provisions in the FRBM Rules, the assumptions underlying the projection of fiscal indicators are explained below.

A. ASSUMPTIONS UNDERLYING THE PROJECTIONS OF FISCAL INDICATORS

1. Revenue Receipts

Tax Revenue

16. The State has continued to display a moderate level of growth in collection of Own Tax Revenues. The underlying factor that contributes to the low level of tax collection is to a great extent attributed to non-existence of large scale industries in the State. The geographical isolation, rugged terrains and limited resources is hugely detrimental for setting up large scale industries. Furthermore, the contribution of industry sector to the economy is fairly moderate making it difficult to have a broad tax base. The impediments caused by transition from the erstwhile VAT to the new tax regime in the form of GST are slowly dissipating and GST has gained traction which has helped increase state’s own tax collection. However, the share of the state’s own taxes to the overall tax receipt continues to be nominal, accounting for just over 5.57 per cent.

17. Computerization of Tax administration has tremendously improved the tax collection efficiency. The Taxation Department has undertaken the development of exclusive citizen-centric web-based system which is able to cater to the state’s specific needs in tax administration. By offering online services such as e-payment

and e-returns, the collection of tax revenue has increased manifold. Transport Department is also taking up online payment of Road tax and Passengers & Goods taxes. Road tax has also been increased from 4% to 6% of the price of the vehicles. GST had been introduced in the country since 1st July 2017. Except VAT on POL and Liquor, all other taxes have been subsumed under GST. As GST has started consolidating, revenue collection is expected to increase tremendously. Also, revenue adjustment received from Integrated GST (IGST) is expected to be substantial since the state is a consuming state.

18. The State's Own Tax Revenue (SOTR) so far accrued to the State Government may be summarized as follows – ₹ 358.41 crore in 2015-16 (Actual), ₹ 441.81 crore in 2016-17 (actual), ₹ 545.91 crore in 2017-18 (actual) and ₹ 483.34 crore in 2018-19 (RE). It is estimated that there would be a total of ₹ 573.69 crore under SOTR in 2019-20.

Non-Tax Revenue

19. It has been the concern of the State Government to generate its own resources on account of which it has reviewed many existing rate of Non-Tax revenue. In respect of Non-Tax revenue, user charges of piped water, tariff rate of electricity, land revenue, etc is being increased. Various user charges at Government Hospitals and Government Guest Houses have also been revised.

20. The State's Own Non-Tax Revenue (SONTR) was ₹ 297.63 crore during 2015-16, ₹ 365.21 crore in 2016-17, ₹ 390.65 crore in 2017-18, ₹ 323.85 crore as per 2018-19 (RE). It is estimated that a total of ₹ 459.30 crore is likely to accrue under SONTR during 2019-20.

State's share of Central Taxes

21. The Fourteenth Finance Commission has recommended that the share in taxes to be devolved to the state governments be increased from 32 per cent to 42 per cent; the share of central taxes for the state was ₹ 2,348.11 crore in 2015-16, ₹ 2,800.63 crore in 2016-17, ₹ 3,097.05 crore in 2017-18, ₹ 3,389.9 crore in 2018-19 and it is estimated that ₹ 3,885.19 crore shall be devolved during 2019-20. The actual release to the state government is subject to actual realization of tax revenues by the Central Government.

Grants from Central Government

22. The Fourteenth Finance Commission did not make any distinction between the Plan and Non Plan funds thereby amalgamating Plan and Non-Plan Revenue Deficit Grants into Post Devolution Revenue Deficit Grant (PDRDG). The Revenue Deficit Grant that may accrue to the Govt. of Mizoram during the period of the Fourteenth Finance Commission period are – ₹ 2,294.00 crore in 2016-17, ₹ 2,446.00 crore in 2017-18, ₹ 2,588.00 crore in 2018-19 and ₹ 2,716.00 crore in 2019-20.

23. The Calamity Relief fund (State Disaster Response Fund) that would be accrued to Mizoram are - ₹ 16.2 crore in 2016-17, ₹ 17.00 crore in 2017-18, ₹ 18.00 crore in 2018-19 and ₹ 18.00 crore in 2019-20.

2. Capital Receipts

Borrowings

24. The borrowing ceiling of state government is guided by the recommendation of the Finance Commission. The Ministry of Finance fixes the upper ceiling of net borrowing that can be availed by a state government in line with the recommendation of the Finance Commission. The FRBM Act, 2006 was therefore amended from time to time so as to incorporate the new recommendations introduced by the successive Finance Commissions. These are guidelines to lead the state government along the fiscal correction path. The state government has to be cautious in handling borrowings so that the borrowings should not be in excess of the requirement of deficit financing and the portfolio selection should be guided by the borrowing instruments and the overall cost of borrowings such that the weight-average interest rate on new borrowings could be minimized. Keeping in mind these criteria, the estimated net borrowings in 2019-20 is ₹ 633.00 crore as per GSDP projected by Ministry of Finance.

Loans and Advances from the Central Government

25. The Twelfth Finance Commission recommended the discontinuation of the system of on-lending by the Centre to the states with the exception of loans given by the Ministry of Finance. This exceptional loan includes Block Loan against the loan component of Externally Aided Projects. The Thirteenth Finance Commission also recommended the same arrangement to be continued. Loans received from

the Central Government are mainly in the form of 10% loan component of Externally Aided Project (EAP) and a small amount of loan in certain schemes under CSS. Thus, the borrowings under Loans & Advances from the Central Government will be the loan components of EAP's which was ₹ 27.05 crore in 2016-17 (actual), ₹ 44.95 crore in 2017-18 (actual), ₹ 46.60 crore in 2018-19 (RE) and ₹ 101.70 crore in 2019-20 (BE).

Recoveries of Loans and Advances

26. The continued disbursements of the government of Loans and Advances to its employees in the past, which can be ascribed to an investment, had earned interests and therefore resulted in recovery of Loans and Advances. Since recovery of loans follows a specific pattern, the estimated amount was ₹ 22.45 crore in 2016-17, ₹ 21.64 in 2017-18, ₹ 36.47 in 2018-19 and ₹ 39.02 crore in 2019-20.

Public Account Borrowings

27. To meet the resource gap on the Consolidated Fund and for making the requirement of resources to finance the Annual Plan, Net receipts under Provident Fund and Insurance & Pension Fund in the Public Account are always utilized. It is termed as Borrowings from Public Account (Net). Borrowing has to be maintained at optimum level so that the net borrowings under Public Account are not too much and serve as only gap-filler in the deficit financing. With that in view, the net borrowing from the Public Account for 2015-16 was ₹ 383.36 crore, ₹ 62.75 crore in 2016-17, ₹ (-) 179.14 crore in 2017-18. The projected amounts for 2018-19 and 2019-20 are ₹ 71.00 crore and ₹ (-) 179.50 crore respectively.

3. Total Expenditure

Revenue Account

28. The increased percentage of Revenue Accounts mainly depends on two factors – increased percentage of salary and its connected items and increased percentage of contingent expenditure. Owing to the implementation of Seventh Pay Revision and inflation, it can be speculated that the anticipated expenditure on account of salary and its connected items would increase instantly and tremendously. As such, the estimate for 2019-20 is ₹ 8,403.52 crore whereas the total revenue expenditure for 2015-16 was ₹ 5,570.85 crore, ₹ 6,230.34 crore for 2016-17, at ₹ 6,880.76 crore for 2017-18 and ₹ 8,147.53 crore for 2018-19.

Capital Account

29. As per recommendation of Thirteenth Finance Commission, the state government is advised to raise its Capital expenditure in order to enhance investment on infrastructure and other developmental activities by generating its own Revenue Surplus. At the same time, the ceiling of state borrowings is limited to the extent of its outstanding liabilities which has tightened the fiscal maneuverability of the state government. Therefore, the expenditure on Capital Account is being anticipated on the basis of two factors – first, the total amount of devolution of Non-Plan Grants as recommended by FC-XIV, second, the Revenue Surplus that the state government is expected to generate on its own. Under the Fourteenth Finance Commission recommendation, however, one cannot differentiate between the Plan and Non-Plan devolutions and hence the amount that needs to be set aside for capital formation or expenditures which are of capital in nature are generally determined by the left-over from the committed revenue expenditures. The Total Capital Expenditure of the state was ₹ 1,251.38 in 2016-17 ₹ 1,996.35 crore in 2017-18, ₹ 2,213.09 in 2018-19. It is estimated that ₹ 1,914.86 crore shall be used under Capital Expenditure.

B. ASSESSMENT OF SUSTAINABILITY RELATING TO

(a) The balance between revenue receipts and revenue expenditure

30. The difference between Revenue Receipts and Revenue Expenditure is termed as Revenue Deficit or Revenue Surplus depending upon the nature of the difference. There was Revenue surplus of ₹ 1,105.54 crore in 2015-16 which was 7.20% of GSDP. The Revenue Surplus in 2016-17 was ₹ 1,167.96 crore (7.14% of GSDP), ₹ 1,699.44 crore in 2017-18 which was 9.58% of GSDP. As per Revised Estimates for 2018-19, it is estimated that there would be a surplus of ₹ 531.38 crore at 2.39% of GSDP. It is expected that there would be a surplus of ₹ 1,443.49 crore during 2019-20 which would be 5.58 per cent of the GSDP.

31. However, the state government is committed to take extra efforts to generate its own resources. Introduction of e-payment for various government revenues is expected to increase efficiency in collection of such revenues and hence the gross revenue. The impact of rising salary is being minimized by making

new appointments on contract basis only in most of the non-regulatory departments.

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

32. The state government has been utilizing borrowings for meeting its expenditure requirements on capital account for generating productive assets i.e. for capital formation. This is essential especially for revenue-deficient states like ours. This, in essence, is not harmful as long as it leads to capital formation but what has become harmful is the unhealthy practice of meeting revenue expenditures from capital receipts.

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

33. New Defined Contributory Pension Scheme was launched for the Govt. employees recruited on or after 1.9.2010 with the introduction of Voluntary Retirement Scheme for unqualified Teachers under School Education Department. An amount of $ 3 million (₹ 14.16 crore) has been set aside under Asian Development Bank (ADB) assisted MPRMP for the implementation of the said Voluntary Retirement Scheme and undertaking exhaustive estimation of pension liabilities including developing a complete database. After development of complete database on pension, estimation of expenditure on pension payment shall be carried out on actuarial basis. However, the present estimation is carried out on the basis of trend growth rate.

34. Even though New Defined Contributory Pension Scheme has been launched, there are many employees who are left out under the scheme since the scheme covers only the employees recruited on or after 1.9.2010. The projections of pension payments are as follows-

2019-20	-	₹	1064.15 crore
2020-21	-	₹	1149.28 crore
2021-22	-	₹	1241.22 crore
2022-23	-	₹	1340.52 crore
2023-24	-	₹	1447.76 crore
2024-25	-	₹	1563.59 crore

35. Data on receipts and expenditure in the state's finance over the medium term framework covering the period 2016-17 to 2018-19 is shown in the ***table appended*** herewith.

TABLE

(₹ in crore)

Sl. No.	Item of Receipt / Expenditure		2017-18 (Actuals)	2018-19 (Budget Estimates)	2018-19 (Revised Estimates)	2019-20 (Budget Estimates)	Targets for next Two Years 2020-21 (Proj)	2021-22 (Proj)
1	**Revenue Receipts**		**8580.20**	**8909.43**	**8673.91**	**9846.99**	**10634.75**	**11485.53**
	(a)	*Tax-Revenue*	545.91	483.34	483.34	573.69	619.59	669.15
	(b)	*Non-Tax Revenue*	390.65	323.85	323.85	459.30	496.04	535.73
	(c)	*State's share of Central Taxes*	3097.05	3625.32	3389.80	3885.19	4196.01	4531.69
	(d)	*Grants from Central Government*	4546.59	4476.92	4476.92	4928.81	5323.11	5748.96
		(i) Non-Plan Grants	-	2643.51	-	-	-	-
		(ii) Plan Grants	4546.59	1833.41	4476.92	4928.81	5323.11	5748.96
2	**Capital Receipts**		**736.64**	**834.22**	**834.25**	**665.81**	**719.07**	**776.60**
	(a)	*Borrowings on account of Internal Debt of the State Government (of which W&MA)*	*886.27 (234.90)*	*706.00 (0.03)*	*706.00 (0.03)*	*772.03 (0.03)*	*833.79*	*900.50*
	(b)	*Loans and advances from the Centre*	*7.87*	*21.75*	*21.78*	*34.26*	*37.00*	*39.96*
	(c)	*Recovery of loans and advances*	*21.64*	*35.47*	*35.47*	*39.02*	*42.14*	*45.51*
	(d)	*Borrowings from Public Account (Net)*	*-179.14*	*71.00*	*71.00*	*-179.50*	*-193.86*	*-209.37*
3	**Total Expenditure**		**9395.02**	**9492.37**	**10686.20**	**10692.30**	**11547.68**	**12471.50**
	(a)	*Revenue Account*	*6880.76*	*7179.62*	*8142.53*	*8403.52*	*9075.80*	*9801.87*
		(i) Interest Payments	339.20	389.58	390.08	359.02	387.74	418.76
		(ii) Salaries	2326.19	2576.37	2821.13	3366.72	3636.06	3926.94
		(iii) Pensions	837.78	900.00	901.66	1064.15	1149.28	1241.22
		(iv) Others	3377.59	3313.67	4029.66	3613.63	3902.72	4214.94
	(b)	*Capital Account*	*2514.26*	*2312.75*	*2543.67*	*2288.78*	*2471.88*	*2669.63*
		(i) Public Debt-Repayment of borrowings (of which W&MA)	472.96	283.98 *(0.03)*	283.98	272.22	294.00	317.52
		(ii) Loans and advances	44.95	45.40	46.60	101.70	109.84	118.62
		(iii) Capital Outlay	1996.35	1983.37	2213.09	1914.86	2068.05	2233.49
		(iv) Appropriation to Contingency Fund	-	-	-	-		
4	**GSDP**		**17739.00**	**23067.00**	**22271.59**	**25869.14**	**25869.14**	**25869.14**
5	**Outstanding liabilities of the State Government**		**7300.30**	**7887.04**	**7992.34**	**8447.92**	**8701.35**	**9397.46**