

# **CHAPTER-I**

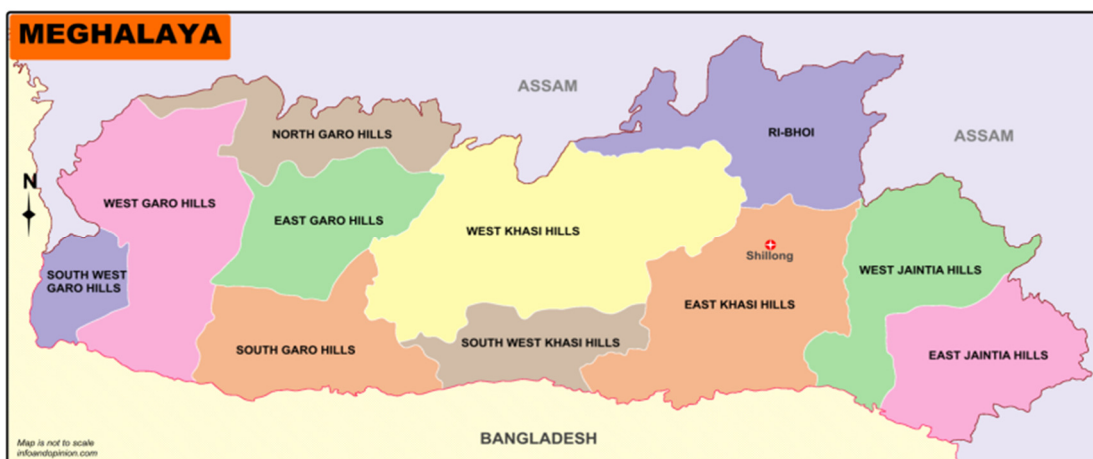
## **OVERVIEW**



## Chapter I: Overview

### 1.1 Profile of the State

Meghalaya is situated in the North Eastern Region of India and is bound in the north and east by Assam and in the south and west by Bangladesh.



**Table 1.1** presents the general data of the State in comparison with all India figures and financial data of the State as detailed below:

**Table 1.1: General data of the State in comparison with all India figures**

Sl. No.	Particulars	Meghalaya	All India
1.	Area in sq km.	22,429	32,87,240
2.	Population in lakh (As per Census 2011)	29.67	12,108.55
3.	Density of Population (Census 2011) (persons per sq km)	132	382
4.	Population below poverty line	11.87%	21.92%
5.	Literacy (Census 2011)	74.40%	73.00%
6.	Infant Mortality (per 1000 live births)	33	30
7.	Gross State Domestic Product (GSDP)/ Gross Domestic Product (GDP) 2020-21 at current prices (₹ in crore)	33,436	1,97,45,670
8.	GSDP CAGR (2011-12 to 2020-21)	5.92	9.48
9.	Per capita GDP/ GSDP (2020-21)	91,907	1,45,680

Source: Central Statistical Officer (CSO), Ministry of Statistics and Programme Implementation.

The State is spread over a geographical area of 22,429 sq.km. (0.68 per cent of the country's total geographical area) and is home to around 29.67 lakh persons (0.25 per cent of the population of the country) as per Census 2011.

The average compound annual growth rate in respect of GSDP for Meghalaya between 2011-12 and 2020-21 was 5.92 per cent which was lower than the all India average (9.48 per cent). The per capita income of the State at current prices was ₹ 91,907 during 2020-21, which was lower than the all India average of ₹ 1,45,680.

**Table 1.2** presents the financial data of the State in comparison with North Eastern and Himalayan States (NE & HS).

**Table 1.2: Financial data of the State in comparison with ‘North Eastern and Himalayan States’**

Particulars		Figures (in per cent)			
		2011-12 to 2020-21		2019-20 to 2020-21	
		NE & HS	Meghalaya	NE & HS	Meghalaya
(a)	Revenue Receipts	9.85	9.67	6.95	13.49
(b)	Own Tax Revenue	9.28	12.86	2.97	9.59
(c)	Non-Tax Revenue	6.01	3.98	-14.64	-1.31
(d)	Total Expenditure	10.44	9.79	4.04	26.22
(e)	Capital Expenditure	9.42	8.01	9.97	84.64
	Capital Outlay	9.86	8.17	11.39	84.53
(f)	Revenue Expenditure on General Education	10.51	7.92	3.06	-4.47
(g)	Revenue Expenditure on Health & Family Welfare	14.54	16.89	15.09	42.65
(h)	Salaries and Wages	9.58	8.63	0.34	-1.63
(i)	Pension	15.23	13.70	11.48	5.48

It is evident from the table that Meghalaya has performed significantly better in all financial aspects except for Revenue Expenditure on General Education during 2019-20 to 2020-21.

## 1.2 Basis and Approach to State Finances Audit Report

In terms of Article 151 (2) of the Constitution of India, the Reports of the Comptroller and Auditor General of India (CAG) relating to the accounts of a State are to be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State. The State Finances Audit Report (SFAR) is prepared and submitted under Article 151 (2) of the Constitution of India.

Accountant General (Accounts & Entitlements) prepares the Finance Accounts and Appropriation Accounts of the State annually, from the vouchers, challans and initial and subsidiary accounts rendered by the treasuries, offices and departments responsible for keeping of such accounts functioning under the control of the State Government, and the statements received from the Reserve Bank of India. These accounts are audited independently by the Accountant General (Audit) and certified by the CAG.

Finance Accounts and Appropriation Accounts of the State constitute the core data for this Report. Other sources include the following:

- Budget of the State: for assessing the fiscal parameters and allocative priorities *vis-à-vis* projections, as well as for evaluating the effectiveness of its implementation and compliance with the relevant rules and prescribed procedures;
- Results of audit carried out by the Office of the Accountant General (Audit);
- Other data with Departmental Authorities and Treasuries (accounting as well as MIS);
- GSDP data and other State related statistics; and
- Various audit reports of the CAG of India.

The analysis is also carried out in the context of recommendations of the XV Finance Commission (FC), State Financial Responsibility and Budget Management Act, best

practices and guidelines of the Government of India. The draft Report is forwarded to the State Government for comments and replies of the Government, where received, are incorporated in this Report at appropriate places.

### 1.3 Report Structure

The SFAR is structured into the following five Chapters:

<b>Chapter - I</b>	<b>Overview</b> This Chapter describes the basis and approach to the Report and the underlying data, provides an overview of structure of government accounts, budgetary processes, macro-fiscal analysis of key indices and State's fiscal position including the deficits/ surplus.
<b>Chapter - II</b>	<b>Finances of the State</b> This Chapter provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the period from 2016-17 to 2020-21, debt profile of the State and key Public Account transactions, based on the Finance Accounts of the State.
<b>Chapter - III</b>	<b>Budgetary Management</b> This Chapter is based on the Appropriation Accounts of the State and reviews the appropriations and allocative priorities of the State Government and reports on deviations from Constitutional provisions relating to budgetary management.
<b>Chapter - IV</b>	<b>Quality of Accounts &amp; Financial Reporting Practices</b> This Chapter comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the State Government.
<b>Chapter V</b>	<b>Functioning of the State Public Sector Enterprises (PSEs)</b> This Chapter presents the financial performance of 'Government Companies', 'Statutory Corporations' and 'Government Controlled Other Companies'.

### 1.4 Overview of Government Account Structure and Budgetary Processes

The Accounts of the State Government are kept in three parts:

#### 1. Consolidated Fund of the State (Article 266(1) of the Constitution of India)

This Fund comprises all revenues received by the State Government, all loans raised by the State Government (market loans, bonds, loans from the Central Government, loans from Financial Institutions, Special Securities issued to National Small Savings Fund, etc.), Ways and Means advances extended by the Reserve Bank of India and all moneys received by the State Government in repayment of loans. No moneys can be appropriated from this Fund except in accordance with law and for the purposes and in the manner provided by the Constitution of India. Certain categories of expenditure (e.g., salaries of Constitutional authorities, loan repayments, etc.), constitute a charge on the Consolidated Fund of the State (Charged expenditure) and are not subject to vote by the Legislature. All other expenditure (Voted expenditure) is voted by the Legislature.

## 2. Contingency Fund of the State (Article 267(2) of the Constitution of India)

This Fund is in the nature of an imprest which is established by the State Legislature by law, and is placed at the disposal of the Governor to enable advances to be made for meeting unforeseen expenditure pending authorisation of such expenditure by the State Legislature. The fund is recouped by debiting the expenditure to the concerned functional major head relating to the Consolidated Fund of the State.

## 3. Public Account of the State (Article 266(2) of the Constitution)

Apart from above, all other public moneys received by or on behalf of the Government, where the Government acts as a banker or trustee, are credited to the Public Account. The Public Account includes repayables like Small Savings and Provident Funds, Deposits (bearing interest and not bearing interest), Advances, Reserve Funds (bearing interest and not bearing interest), Remittances and Suspense heads (both of which are transitory heads, pending final booking). The net cash balance available with the Government is also included under the Public Account. The Public Account is not subject to vote of the Legislature.

There is a constitutional requirement in India (Article 202) to present before the House or Houses of the Legislature of the State, a statement of estimated receipts and expenditures of the government in respect of every financial year. This 'Annual Financial Statement' constitutes the main budget document. Further, the budget must distinguish expenditure on the revenue account from other expenditures.

**Revenue Receipts** consists of tax revenue, non-tax revenue, share of Union Taxes/Duties, and grants from Government of India.

**Revenue Expenditure** consists of all those expenditure of the government which do not result in creation of physical or financial assets. It relates to those expenses incurred for the normal functioning of the government departments and various services, interest payments on debt incurred by the government, and grants given to various institutions (even though some of the grants may be meant for creation of assets).

The **Capital Receipts** consist of:

- **Debt receipts:** Market Loans, Bonds, Loans from financial institutions, Net transaction under Ways and Means Advances, Loans and Advances from Central Government, *etc.*;
- **Non-debt receipts:** Proceeds from disinvestment, Recoveries of loans and advances;

**Capital Expenditure** includes expenditure on the acquisition of land, building, machinery, equipment, investment in shares, and loans and advances by the government to PSEs and other parties.

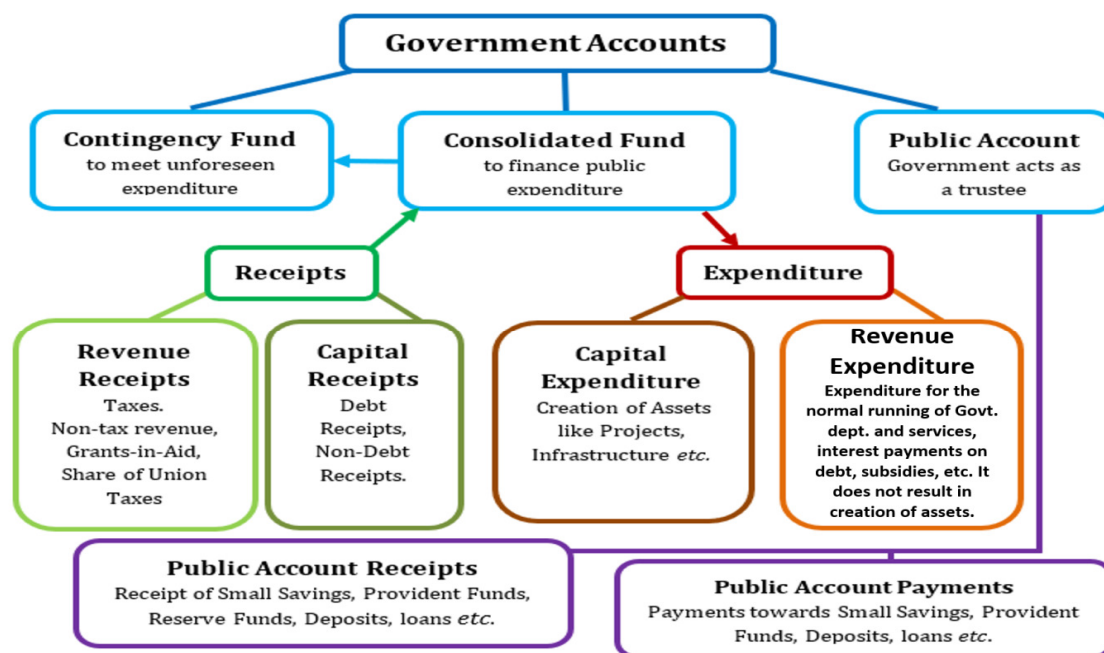
At present, we have an accounting classification system in government that is both functional and economic.

	Attribute of transaction	Classification
Standardised in LMMH by CGA	Function- Education, Health, <i>etc.</i> / Department	Major Head under Grants (4-digit)
	Sub-Function	Sub Major head (2-digit)
	Programme	Minor Head (3-digit)
Flexibility left for States	Scheme	Sub-Head (2-digit)
	Sub scheme	Detailed Head (2-digit)
	Economic nature/Activity	Object Head-salary, minor works, <i>etc.</i> (2-digit)

The functional classification lets us know the department, function, scheme or programme, and object of the expenditure. Economic classification helps organise these payments as revenue, capital, debt, *etc.* Economic classification is achieved by the numbering logic embedded in the first digit of 4-digit Major Heads. For instance, 0 and 1 is for Revenue Receipts, 2 and 3 for Revenue Expenditure, *etc.* Economic classification is also achieved by an inherent definition and distribution of some object heads. For instance, generally “salary” object head is Revenue Expenditure, “construction” object head is Capital Expenditure. Object head is the primary unit of appropriation in the budget documents.

Chart 1.1 present the structure of Government Accounts.

Chart 1.1: Structure of Government Accounts



### Budgetary Processes

In terms of Article 202 of the Constitution of India, the Governor of State shall cause to be laid before the State Legislature, a statement of the estimated receipts and expenditure of the State, in the form of an **Annual Financial Statement**. In terms of Article 203, the statement is submitted to the State Legislature in the form of Demands for Grants/ Appropriations and after approval of these, the Appropriation Bill is passed by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund. Some States have more than one consolidated Budget – there could be sub-budgets like Child Budget, Agriculture Budget, Weaker sections (SC/ ST) Budget, Disability Budget, Outcome budget, *etc.*

The State Budget Manual details the budget formulation process and guides the State Government in preparing its budgetary estimates and monitoring its expenditure activities. Results of audit scrutiny of budget and implementation of other budgetary initiatives of the State Government are detailed in **Chapter 3** of this Report.

#### 1.4.1 Gross State Domestic Product of the State

Gross State Domestic Product (GSDP) is the value of all the goods and services produced within the boundaries of the State in a given period of time. Growth of GSDP is an important indicator of the State's economy, as it denotes the extent of changes in the level of economic development of the State over a period of time. **Table 1.3** presents trends in annual growth of India's GDP *vis-à-vis* State's GSDP at current prices.

**Table 1.3: Trends in GSDP compared to the national GDP at Current Prices**

Year	2016-17	2017-18	2018-19	2019-20	2020-21
GDP (2011-12 Series)	1,53,91,669	1,70,90,042	1,88,86,957	2,03,51,013	1,97,45,670
Growth rate of GDP (in per cent)	11.76	11.03	10.51	7.75	(-) 2.97
State's GSDP (2011-12 Series)	27,439	29,508	32,176	34,716	33,436
Growth rate of GSDP (in per cent)	9.24	7.54	9.04	7.89	(-) 3.69

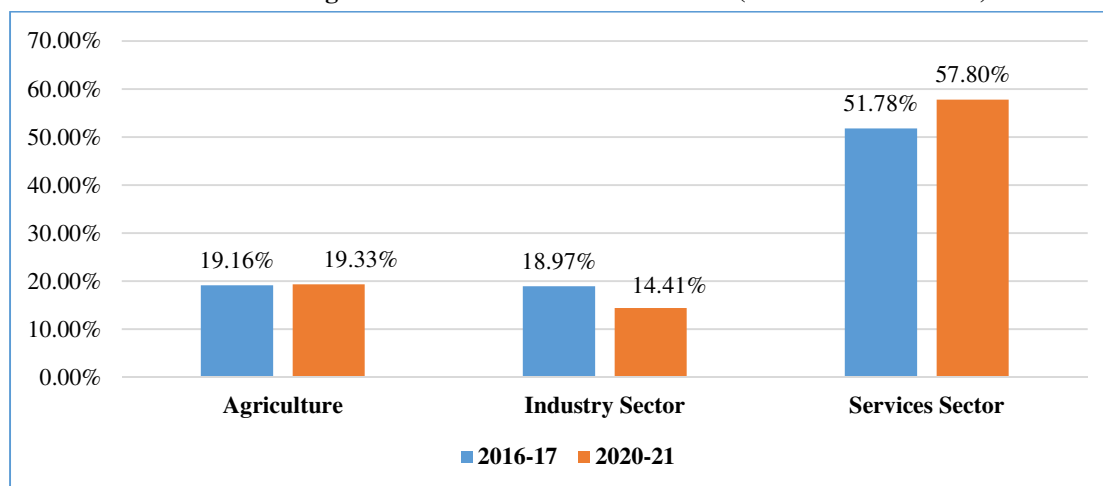
Source of data: Department of Economics and Statistics, Government of Meghalaya and Ministry of Statistics and Programme Implementation, Government of India's website.

The GSDP at current prices contracted by 3.69 per cent, from ₹ 34,716 crore in 2019-20 to ₹ 33,436 crore in 2020-21 as against the assessed growth of 9.50 per cent by the XV Finance Commission (FC). The contraction of GSDP of Meghalaya (-3.69 per cent) was higher than of national GDP (-2.97 per cent).

#### Changes in sectoral headings in GSDP

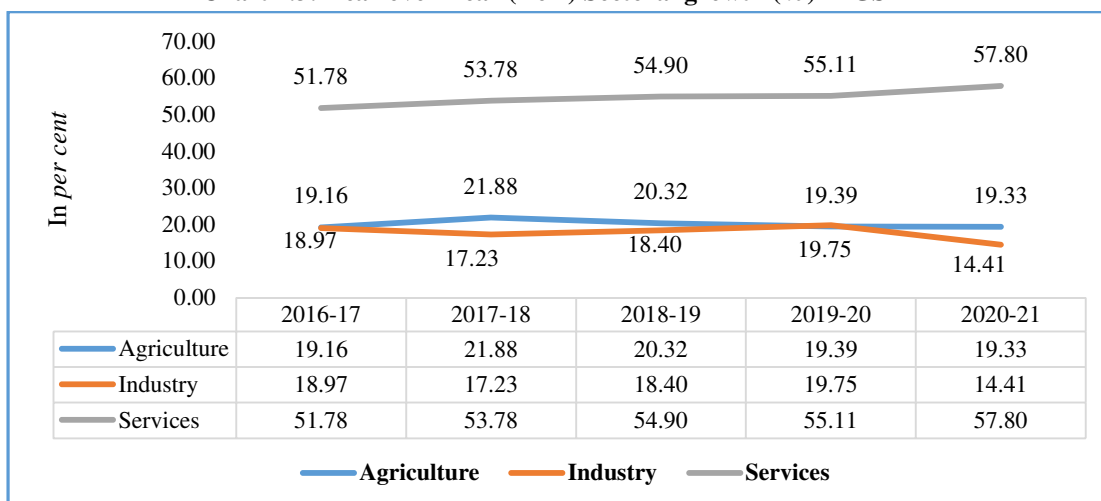
Changes in sectoral contribution to the GSDP is also important to understand the changing structure of economy. The economic activity is generally divided into Primary, Secondary and Tertiary sectors, which correspond to the Agriculture and Allied Activities, Industry and Services sectors. **Charts 1.2 and 1.3** present a sectoral analysis of GSDP of the State of Meghalaya.

**Chart 1.2: Change in sectoral contribution to GSDP (2016-17 and 2020-21)**



Source: Information furnished by the Dy. Director, Economic & Statistics, Meghalaya.



**Chart 1.3: Year over Year (YoY) Sectoral growth (%) in GSDP**

Source: Information furnished by the Dy. Director, Economic & Statistics, Meghalaya.

As seen from the GSDP composition in **Charts 1.2** and **1.3** above, the main driver of the State GSDP is the Services sector, with more than half of the GSDP being generated from this Sector. During 2020-21, the Services Sector recorded visible growth rate of 4.88 *per cent* as against the growth rate of 0.38 *per cent* during 2019-20. On the other hand, the share of Industry Sector fell sharply by 27.04 *per cent* from 19.75 *per cent* of the total GSDP during 2019-20 to 14.41 *per cent* in 2020-21. The Agriculture Sector contributed 19.33 *per cent* to the GSDP in 2020-21, a slight decline from 19.39 *per cent* in 2019-20. The gradual decline in the share of Agriculture Sector in GSDP is an area of concern as agriculture and horticulture are important economic activities for the Primary Sector of the State's economy.

#### 1.4.2 Snapshot of Finances

The budget papers presented by the State Government provide estimation of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviation from the Budget Estimates (BEs) indicates non-attainment of the desired fiscal objectives. **Table 1.4** presents the details of actual financial results *vis-à-vis* BEs for the year 2020-21 *vis-à-vis* actuals for 2019-20.

**Table 1.4: Variation in BEs vis-à-vis Actuals**

(₹ in crore)						
Sl. No.	Components	2019-20 (Actuals)	2020-21 (BEs)	2020-21 (Actuals)	Percentage of Actuals to BEs	Percentage of Actuals to GSDP
1	Tax Revenue	1891.25	2376.98	2072.56	-12.81	6.20
2	Non-Tax Revenue	530.11	690.29	523.17	-24.21	1.56
3	Share of Union taxes/duties	4211.78	5998.98	4551.63	-24.13	13.61
4	Grants-in-Aid and Contributions	2780.38	6286.34	3535.88	-43.75	10.58
5	<b>Revenue Receipts (1+2+3+4)</b>	<b>9413.52</b>	<b>15352.59</b>	<b>10683.24</b>	-30.41	31.95
6	Recovery of Loans and Advances	31.32	27.43	27.77	1.24	0.08
7	Other Receipts	NIL	NIL	NIL	NIL	NIL

Sl. No.	Components	2019-20 (Actuals)	2020-21 (BEs)	2020-21 (Actuals)	Percentage of Actuals to BEs	Percentage of Actuals to GSDP
8	Borrowings and other Liabilities (a)	1496.02	1994.54	2441.89	22.43	7.30
9	<b>Capital Receipts (6+7+8)</b>	<b>1527.34</b>	<b>2021.97</b>	<b>2469.66</b>	22.14	7.39
10	<b>Total Receipts (5+9)</b>	<b>10940.86</b>	<b>17374.56</b>	<b>13152.90</b>	-24.30	39.34
11	<b>Revenue Expenditure</b>	<b>9565.12</b>	<b>14427.58</b>	<b>11498.62</b>	-20.30	34.39
12	Interest payments	758.51	843.17	858.92	1.87	2.57
13	<b>Capital Expenditure</b>	<b>983.49</b>	<b>2829.55</b>	<b>1815.95</b>	-35.82	5.43
14	Capital outlay	939.71	2382.45	1734.05	-27.22	5.19
15	Loan and advances	43.78	447.10	81.90	-81.68	0.24
16	<b>Total Expenditure (11+13)</b>	<b>10548.61</b>	<b>17257.13</b>	<b>13314.57</b>	-22.85	39.82
17	<b>Revenue Surplus (+)/ Revenue Deficit (-) (5-11)</b>	<b>-151.60</b>	<b>925.01</b>	<b>-815.38</b>	-188.15	2.44
18	<b>Fiscal Deficit {(5+6+7) - 16}</b>	<b>1103.77</b>	<b>1877.11</b>	<b>2603.56</b>	38.70	7.79
19	<b>Primary Deficit (18-12)</b>	<b>345.26</b>	<b>1033.94</b>	<b>1744.64</b>	68.74	5.22

(a) Borrowings and other Liabilities: Net (Receipts-Disbursements) of Public Debt + Net of Contingency Fund + Net (Receipts - Disbursements) of Public Account + Net of Opening and Closing Cash Balance.

From the above table, the following were noticed:

Though a revenue surplus of ₹ 925.01 crore was estimated in the budget estimates of 2020-21, the actual figures depict Revenue Deficit of ₹ 815.38 crore. One of the key factors for Revenue Deficit is the shortfall in Revenue Receipts. The actual tax revenue of ₹ 2072.56 crore fell short of the BEs of ₹ 2376.98 crore by 13 per cent.

The total receipts of the State (₹ 13,152.90 crore), including Capital Receipts fell short by 24.30 per cent as against the BEs of (₹ 17,374.56 crore). The actual Revenue Receipts were ₹ 10,683.24 crore as against the BEs of ₹ 15,352.59 crore resulting in a shortfall of 30.41 per cent (₹ 4669.35 crore) over the estimates.

Further, though actual tax revenue (₹ 2072.56 crore), Share of Union taxes/ duties (₹ 4551.63 crore) and Grants-in-Aid (GIA) and Contributions (₹ 3535.88 crore) in 2020-21 increased over the previous year by ₹ 181.31 crore, ₹ 339.85 crore and ₹ 755.50 crore, non-tax revenue (₹ 523.17 crore) fell short over the previous year figure of ₹ 530.11 crore by ₹ 6.94 crore. In 2019-20, the actual GIA received was ₹ 2780.38 crore. While the BEs 2020-21 projected ₹ 6286.34 crore as receipts from Grants-in-Aid and other Contributions from the Centre, the actual receipts fell short by a whopping 44 per cent (₹ 2750.46 crore).

The Revenue Expenditure of the State Government during 2020-21 also fell short of the budget estimate by 20.30 per cent (₹ 2928.96 crore) though it increased by 20.21 per cent (₹ 1933.50 crore) over the previous year.

Similarly, capital outlay of ₹ 1734.05 crore vis-à-vis budget estimate was less by 27.22 per cent (₹ 648.40 crore), actual Capital Expenditure in 2020-21 was higher by ₹ 794.34 crore over the previous year (₹ 939.71 crore). However, as percentage of GSDP, capital outlay was a mere 5.19 per cent.

Borrowings and other liabilities increased by 63.23 per cent over the previous year. As percentage of BEs, the actual borrowings exceeded by 22.43 per cent (₹ 447.35 crore).

### 1.4.3 Snapshot of Assets and liabilities of the Government

Government accounts capture the financial liabilities of the Government and the assets created out of the expenditure incurred. The liabilities consist mainly of internal borrowings, loans and advances from GoI, receipts from public account and reserve funds, and the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. **Table 1.5** presents the summarised position of assets and liabilities.

**Table 1.5: Summarised position of Assets and Liabilities**

(₹ in crore)

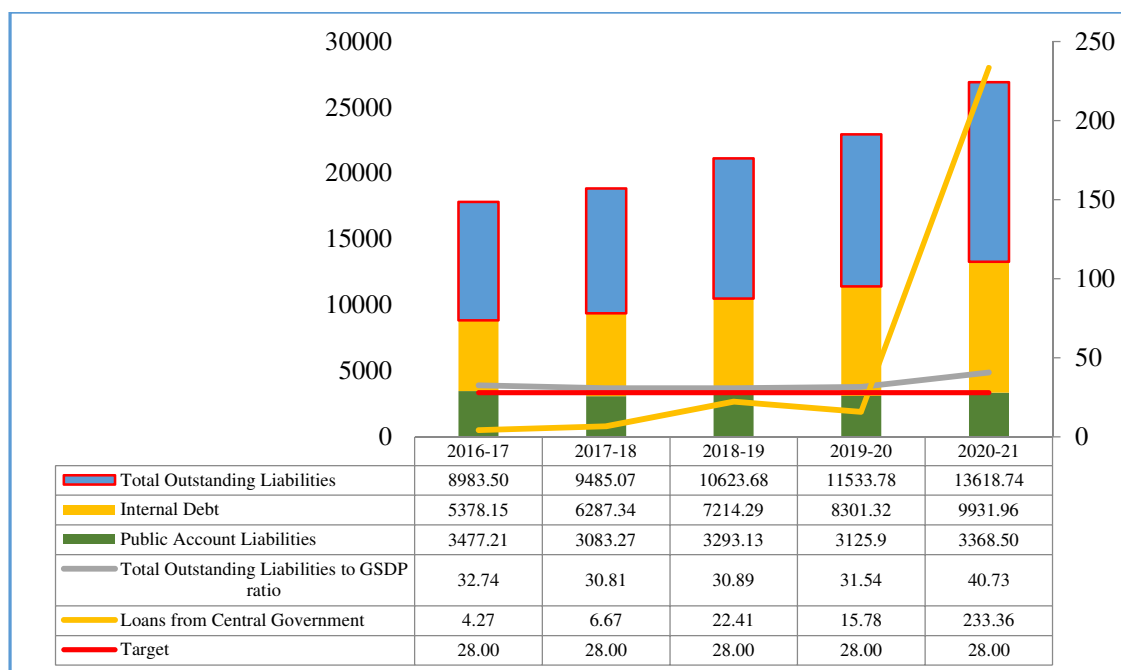
Liabilities					Assets				
		2019-20	2020-21	Per cent increase		2019-20	2020-21	Per cent increase	
<b>Consolidated Fund</b>									
A	Internal Debt	8301.30	9931.96	20	A	Gross Capital Outlay	14976.49	16710.54	12
	Market loans	7032.50	8619.50			Investment in shares of Companies, etc.	2648.49	2650.39	
	Loans from other institutions	1268.80	1312.46			Other Capital Outlay	12328.00	14060.15	
B	Loans and Advances from GoI	106.57	430.28 <sup>1</sup>	304	B	Loans and Advances	866.76	920.88	14
<b>Contingency Fund</b>		<b>303.04</b>	<b>305.00</b>	<b>1</b>			<b>305.00</b>	<b>305.00</b>	<b>-</b>
<b>Public Account</b>									
A	Small Savings, Provident Funds, etc.	1914.42	2125.85	11	A	Advances	1.81	1.81	-
B	Deposits	1005.00	1066.64	6	B	Remittance	-	-	-
C	Reserve Funds	630.89	664.39	5	C	Suspense and Miscellaneous	65.45	88.88	36
D	Remittances	97.64	82.95	-15	<b>Cash balance (including investment in Earmarked Fund)</b>		<b>1029.88</b>	<b>769.12</b>	<b>-25</b>
<b>Total</b>		<b>3647.95</b>	<b>3939.83</b>	<b>8</b>	<b>Total</b>		<b>1097.14</b>	<b>859.81</b>	<b>-22</b>
<b>Surplus in Revenue Account</b>		<b>4886.53</b>	<b>4189.16</b>						<b>-</b>
<b>Total</b>		<b>17245.39</b>	<b>18796.23</b>	<b>18</b>	<b>Total</b>		<b>17245.39</b>	<b>18796.23</b>	<b>18</b>

As Compared to previous year, the liabilities on the Consolidated Fund of State increased by 23.24 per cent from ₹ 8407.87 crore (₹ 8301.30 crore + ₹ 106.57 crore) in 2019-20 to ₹ 10,362.24 crore (₹ 9931.96 crore + ₹ 430.28 crore) in 2020-21. This was primarily due to increase in market loans (22.57 per cent) and loans and advances from the GoI (303.57 per cent).

<sup>1</sup> Meghalaya received back to back loans of ₹ 112 crore in lieu of GST compensation under the debt receipts with no repayment liability of the State.

**Charts 1.4** depicts the trends in fiscal liabilities and total liabilities to GSDP ratio during the five-year period 2016-21.

**Chart 1.4: Trends in Fiscal Liabilities and Total Liabilities to GSDP Ratio**



Outstanding liabilities of the State increased from ₹ 8983.50 crore as on 31 March 2017 to ₹ 13,618.74 crore<sup>2</sup> as on 31 March 2021. Compared to previous year, the outstanding liabilities at the end of 2020-21 increased by 18.08 *per cent* (₹ 2084.96 crore).

Liabilities on the consolidated fund and public account increased by 23.24 *per cent* and 7.76 *per cent* respectively during 2020-21 as compared to the previous year. This was due to increase in increase in market loans (22.57 *per cent*) and loans and advances from the GoI (303.57 *per cent*).

State failed to achieve the target of 28 *per cent* (Total Outstanding Liabilities to GSDP ratio) as set by the MFRBM Act, 2006 during the period 2016-17 to 2020-21.

### 1.5 Fiscal Balance: Achievement of deficit and total debt targets

Deficit is an indicator of prudent fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied, are important pointers to its fiscal health. This section presents trends, nature and magnitude of deficits and the manner of financing these deficits, and also the assessment of actual levels of revenue and Fiscal Deficits *vis-à-vis* targets set under MFRBM Act/ Rules for the financial year 2020-21. Three key fiscal parameters – Revenue, Fiscal and Primary Deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period.

**1. Revenue Deficit/Surplus** - Refers to the gap between Revenue Expenditure and Revenue receipts.

<sup>2</sup> ₹ 13,730.74 *minus* ₹ 112 crore as Meghalaya State received back to back loan of ₹ 112 crore in lieu of GST compensation under debt receipts with no repayment liability of the State.

**2. Fiscal Deficit/Surplus** - This is the difference between the Revenue Receipts *plus* Non-Debt Capital Receipts and the Total expenditure. Fiscal Deficit is reflective of the total borrowing requirements of Government.

**3. Primary Deficit/Surplus** - Primary Deficit is measured as Fiscal Deficit less interest payments.

In accordance with the recommendations of XII FC, Government of Meghalaya (GoM) has enacted the Meghalaya Fiscal Responsibility and Budget Management (MFRBM) Act, 2006. The performance of the State during the period 2016-17 to 2020-21 in terms of key fiscal targets set for selected parameters as per the MFRBM Act, as amended in 2015, 2020 and 2021 *vis-à-vis* achievements are given in Table 1.6.

**Table 1.6: Compliance with provisions of MFRBM Act**

Fiscal Parameters	Fiscal targets set in the Act	Achievement				
		2016-17	2017-18	2018-19	2019-20	2020-21
<b>Revenue Deficit (-) / Surplus (+) (₹ in crore)</b>	Maintain Revenue Surplus	602.41	850.80	-537.32	-151.60	-815.38
		✓	✓	✗	✗	✗
<b>Fiscal Deficit (as percentage of GSDP)</b>	Three <i>per cent</i> (2016-17 to 2018-19)	699.41 (2.55)	237.24 (0.80)	2026.08 (6.30)	1103.77 (3.18)	2603.56 (7.79)
	4.1 <sup>3</sup> <i>per cent</i> (2019-20)	✓	✓	✗	✓	✗
	5.00 <sup>4</sup> <i>per cent</i> (2020-21)					
<b>Ratio of total outstanding debt to GSDP (in <i>per cent</i>)</b>	28 <i>per cent</i> up to 2019-20 & 37.39 <i>per cent</i> <sup>5</sup> for 2020-21	32.74	32.14	31.73	31.54	40.73*
		✗	✗	✗	✗	✗

\*Back to back loan of ₹ 112 crore received from GoI during the year 2020-21 in lieu of GST compensation shortfall has been excluded for computing the ratio of outstanding debt to GSDP. As per GoI clarification<sup>6</sup>, this borrowing would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission, etc.

State Government was unable to maintain Revenue Surplus since 2018-19. Fiscal Deficit-GSDP ratio and Debt-GSDP ratio as targeted in the MFRBM were also not met. Fiscal Deficit at 7.79 *per cent* of GSDP was above the revised target (5 *per cent*) set under MFRBM Act, 2021. With regard to Debt-GSDP ratio, the State could not meet the projections in any of the years since 2016-17. Thus, the State Government is not paying any attention to financial prudence and consolidation.

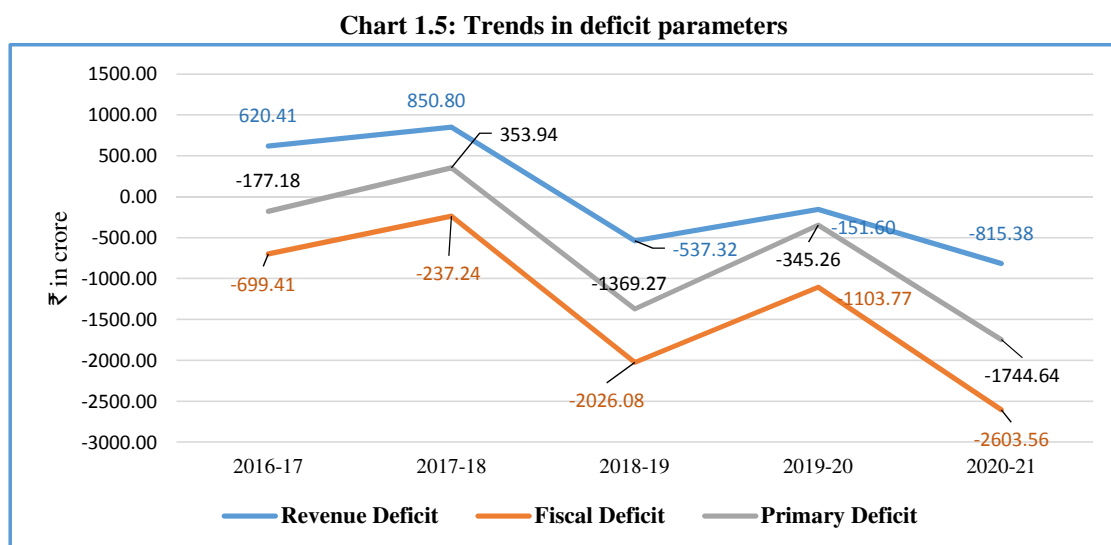
<sup>3</sup> As per MFRBM (Amendment) Act, 2020.

<sup>4</sup> As per MFRBM (Amendment) Act, 2021.

<sup>5</sup> Target set by the Medium Term Fiscal Policy and Strategy Statement of State Budget 2020-21.

<sup>6</sup> Government of India, Ministry of Finance, Department of Expenditure letter no. F. No.40(1) PF-S/2021-22 dated 10 December 2021.

**Charts 1.5** depicts the trends in surplus/ deficit parameters during the five-year period 2016-21.



The State became Revenue Deficit during 2018-19 and the trend continued during 2019-20 and 2020-21 from a Revenue Surplus State in 2017-18, due to decrease in Revenue Receipts. During 2020-21, the Fiscal Deficit as *per cent* to GSDP increased to 7.79 *per cent* from 3.18 *per cent* in 2019-20. The Fiscal Deficit of 7.79 *per cent* in 2020-21 was higher than the fiscal target of 5 *per cent* set in the MFRBM (Amendment) Act, 2021.

During the five-year period, the ratio of total outstanding debt as percentage of GSDP has steadily been above the targeted ratio of 28 *per cent* of GSDP. During 2020-21, it rose by nine *per cent* to 40.73 *per cent* over 31.54 *per cent* in 2019-20.

## 1.6 Deficits after examination in Audit

**Table 1.7** depicts the assessment of actual surplus/deficit after taking into account incorrect classifications/ bookings by the State Government in its accounts of 2020-21.

**Table: 1.7 Revenue and Fiscal Deficit, post examination by Audit**

Item	Impact on Revenue Deficit		Impact on Fiscal Deficit	
	Overstatement (₹ in crore)	Understatement (₹ in crore)	Overstatement (₹ in crore)	Understatement (₹ in crore)
Non-payment of interest on the balances under interest bearing Reserve Funds and Deposits: NPS: ₹ 0.07 crore; SCAF: ₹ 5.55 crore; and SDRF: ₹ 1.91 crore	-	7.53	-	7.53
Short transfer to SDRF (Central and State share)	-	36.34	-	36.34
<b>Total (Net) Impact</b>	<b>43.87 (Understatement)</b>		<b>43.87 (Understatement)</b>	

Source: Notes to Accounts of Finance Accounts, 2020-21.

In view of the above, the Revenue Deficit and Fiscal Deficit of the State which were ₹ 815.38 crore and ₹ 2603.56 crore would actually be ₹ 859.25 crore and ₹ 2647.43 crore respectively.

## 1.7 Conclusion

The GSDP at current prices contracted by 3.69 *per cent*, from ₹ 34,716 crore in 2019-20 to ₹ 33,436 crore in 2020-21 as against the assessed growth of 9.50 *per cent* by the XV Finance Commission. The contraction of GSDP of Meghalaya (-3.69 *per cent*) was higher than the national GDP (-2.97 *per cent*).

The main driver of the state GSDP is the Services sector, contributing by more than half to the GSDP.

The State's Revenue Receipts (₹ 10,683.24 crore) as well as the Revenue Expenditure (₹ 11,498.62 crore) fell short of the BEs by ₹ 4669.35 crore (30 *per cent*) and ₹ 2928.96 crore (20 *per cent*) respectively. Similarly, Capital Expenditure (₹ 1815.85 crore) fell short of the BEs by ₹ 1013.60 crore. However, Capital Receipts of ₹ 2469.66 crore exceeded the BEs by ₹ 447.69 crore during the year.

Though the State Government had projected a Revenue Surplus of ₹ 925.01 crore in the BEs, the year ended with a Revenue Deficit of ₹ 815.38 crore. The Fiscal Deficit (₹ 2603.56 crore) was higher than the assessment made in the BEs (₹ 1877.11 crore) by ₹ 726.45 crore (39 *per cent*) while the Primary Deficit (₹ 1744.64 crore) was higher than the assessment made in the BEs (₹ 1033.94 crore) by ₹ 710.70 crore (69 *per cent*).

The State failed to achieve the targets set in the MFRBM Act. The Fiscal Deficit of 7.79 *per cent* in 2020-21 was higher than the fiscal target of 5 *per cent*. During the five-year period, the ratio of total outstanding debt as percentage of GSDP has steadily been above the target ratio of 28 *per cent* of GSDP up to 2019-20 and 37.39<sup>7</sup> *per cent* of GSDP during 2020-21. During 2020-21, it rose by 9 *per cent* to 40.73 *per cent* over 31.54 *per cent* in 2019-20.

## 1.8 Recommendations

*As the Services sector was the main driver of GSDP, the State Government should continue to act as a facilitator for private investment in this sector and create infrastructure for tourism development which will further augment the economic growth of the State.*

*The State needs to make efforts to achieve the targets set under MFRBM Act for better fiscal Management.*

<sup>7</sup> Set by the Medium Term Fiscal Policy and Strategy Statement of State Budget 2020-21.

