



**CHAPTER-I**  
**Overview of State Finances**



# CHAPTER I

## Overview of State Finances

### 1.1 Profile of the State

Arunachal Pradesh is a North Eastern and Himalayan (NE&H) State<sup>1</sup>. Area-wise it is the largest State in the North-Eastern region (NER) with a geographical area of about 83,743 square kilometre (sq. km.). It has an international border with Bhutan in the West (160 kms), China in the North and North-East (1,080 kms) and Myanmar in the East (440 kms). It also shares common boundaries with Assam and Nagaland. According to the Census of India-2011, population of the State stood at 13,83,727<sup>2</sup> which is 0.11 *per cent* of the country's population. It has the lowest population density in the country at 17 persons per sq. km. as against the national average of 382 persons per sq. km. The State's decadal growth rate of population was 10.71 *per cent*, which is higher than the rate of growth rate of Himachal Pradesh, Tripura and Jammu and Kashmir but is lower than the growth rate of other NE&H States and is also lower than the all India growth rate of 12.30 *per cent*. The literacy rate of the state was 65.40 *per cent*.

The per capita Gross State Domestic Product (GSDP) of the State at current prices was ₹1,86,502.34 in 2020-21, which was higher than the all India average of ₹1,44,096.27 and less than the average of the NE&H States (₹1,88,674.44). Compound Annual Growth Rate (CAGR) of per capita GSDP of the State during the year was 9.93 *per cent* which was lower than that of Mizoram (15.45 *per cent*), Sikkim (11.42 *per cent*) and Tripura (11.98 *per cent*) and higher than that of other NE&H States as well as average of all India (8.08 *per cent*).

#### 1.1.1 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. The growth rate for the period from 2016-17 to 2020-21 compared with India's GDP is presented in **Table 1.1**.

**Table 1.1: Trends in GSDP compared to the national GDP**

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
India's GDP (₹ in crore)	1,53,91,669 (3 <sup>rd</sup> RE)	1,70,90,042 (2 <sup>nd</sup> RE)	1,88,86,957 (2 <sup>nd</sup> RE)	2,03,51,013 (1 <sup>st</sup> RE)	1,97,45,670 (PE)
Growth rate of India's GDP ( <i>per cent</i> )	11.76	11.03	10.51	7.75	(-)2.97
State's GSDP (₹ in crore)	19845.64 (R.E.)	22,503.33 (R.E.)	24,510.84 (R.E.)	27,377.06 (P.E.)	28,721.36 (A.E.)
Growth Rate of GSDP ( <i>per cent</i> )	7.22	13.39	8.92	11.69	4.91

Sources: GDP- Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation and GSDP- Directorate of Economics and Statistics, Government of Arunachal Pradesh (GoAP)  
R.E.- Revised Estimates; P.E. - Provisional Estimates; A.E.-Advance Estimates

<sup>1</sup> Total 11 North Eastern and Himalayan States:

**Eight North Eastern States:** (i) Arunachal Pradesh, (ii) Assam, (iii) Manipur, (iv) Meghalaya, (v) Mizoram, (vi) Nagaland, (vii) Sikkim and (viii) Tripura

**Three Himalayan States:** (i) Himachal Pradesh, (ii) Uttarakhand and (iii) Jammu and Kashmir

<sup>2</sup> Male: 7,13,912 and Female: 6,69,815

As can be seen from the details tabulated above, during the five-year period 2016-21, the growth rate of GSDP of the State showed fluctuating trend as compared to decreasing trend of the national GDP. However, the growth rate for 2017-18, 2019-20 and 2020-21 for the State was higher compared to the national growth rate. The growth rate of the GSDP of the State for 2020-21 was lower than when compared with the previous year mainly due to decline in Agriculture sector in the State. The overall growth of the GSDP in the state over the five-year period *i.e.*, 2016-21 was higher than the growth rate of the GDP of the country. The CAGR of GSDP for Arunachal Pradesh (11.18 *per cent*) in the decade was lower than the CAGR of Mizoram (16.67 *per cent*), Sikkim (12.69 *per cent*) and Tripura (13.25 *per cent*) and was higher than the CAGR of the other NE&H States and all India CAGR (9.48 *per cent*).

The GSDP of the State fell short of the assessment made by the XV FC during 2020-21. The actual GSDP of the State during 2020-21 was ₹28,721.36 crore which fell short by ₹1,252.64 crore, *i.e.*, 4.18 *per cent* less than the assessment of the XV FC (₹29,974.00 crore). While the XV FC projected the annual growth rate of GSDP of the State for the 2020-21 as 10.90 *per cent*, the annual growth rate of GSDP of the State stood at 4.91 *per cent* during 2020-21. This reduced growth rate of the GSDP than the assessment made by the XV FC had an adverse impact on the resource mobilisation and public expenditure in the State.

The percentage of total expenditure to GSDP shows a fluctuating trend during the period 2016-17 to 2020-21. It steadily increased from 55.17 *per cent* in 2016-17 to 74.16 *per cent* in 2018-19, while it dropped in 2019-20 to 58.18 *per cent* and reached to 63.42 *per cent* in 2020-21. The high percentage of Government expenditure to GSDP indicates that the State is heavily dependent on Government spending. The increased share of Government expenditure in the GSDP indicates that there is unrealised potential for growth in the State by way of non-Government spending. High dependence of the State on Government expenditure for its growth exposes it to vulnerabilities which need to be addressed with necessary policy initiatives.

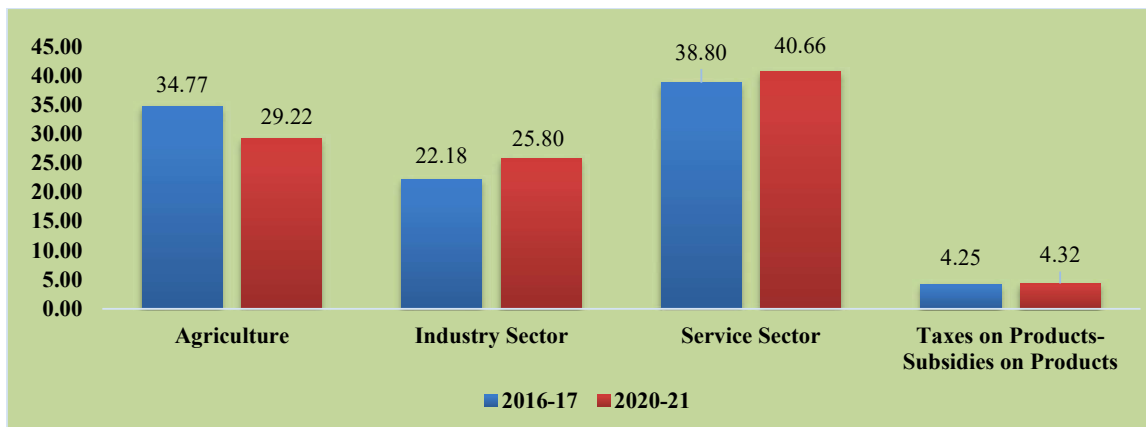
GSDP is the most important indicator for measuring the economic growth of a State. These estimates of economy, over a period of time, reveal the extent and direction of the changes in the levels of economic development. The State Domestic Product is classified under three broad Sectors such as Primary, Secondary and Tertiary and is compiled economic activity-wise as per the methodology prescribed by the Central Statistics Office (CSO), GoI and furnished to the Ministry of Statistics and Programme Implementation. Moreover, GSDP is the sum total of value added by different economic sectors (Agriculture, Industry and Services), which form the three broad sectors, produced within the boundaries of the State calculated without duplication during a year. It is one of the measures of economic growth for a State's economy.

As can be seen from the above **Table**, the State's GSDP grew at a lower rate in 2016-17 and 2018-19 (two years) compared to the country's growth rate in 2016-17 and 2018-19, while in three years (2017-18, 2019-20 and 2020-21), the growth rate of the GSDP of the State was higher than the national growth rate. The growth rate of the GSDP of the State was lower than when compared with the previous year mainly due to decline in Agriculture sector in the State. The overall growth of the GSDP in the State over the five year period *i.e.*, 2016-21 was higher than the growth rate of the GDP of the country.

In the last five years, there had been a decrease in the relative share of Agriculture to GSDP, reducing from 34.77 to 29.22 *per cent*. Matching increase was experienced in Service and Industry sectors. The share of Service sector was higher than that of Industry sector and Agriculture sector, as can be seen from **Chart 1.1**.

**Chart 1.1: Change in sectoral contribution of GSDP (2016-17 and 2020-21)**

(In *per cent*)



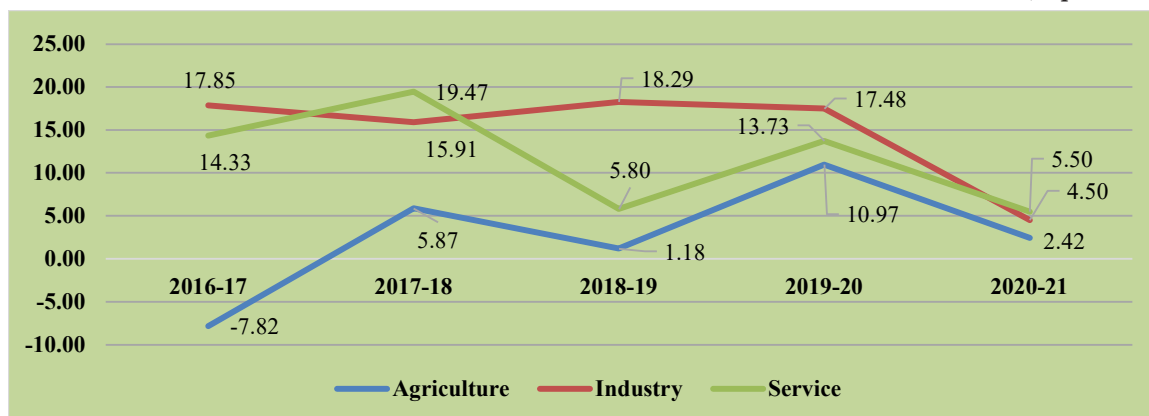
Source: Directorate of Economics and Statistics, Government of Arunachal Pradesh (GoAP)

Growth rate of all the sectors was fluctuating, as can be seen in **Chart 1.2**. There was a sudden increase in the growth rate of the Agriculture sector in the years 2017-18 and 2019-20 when it jumped from (-)7.82 *per cent* in 2016-17 to 5.87 *per cent* in 2017-18 and from 1.18 *per cent* in 2018-19 to 10.97 *per cent* in 2019-20 was mainly due to increase in crops and livestock. The growth in Service sector slipped down from 19.47 *per cent* in 2017-18 to 5.80 *per cent* in 2018-19 due to slower growth in trade and repair services, real estate and public administration.

The growth in Industry sector reached its peak in 2018-19 and thereafter there had been a decreasing trend which continued till the current year as can be seen in **Chart 1.2**. The decreasing trend in growth rate of the Industry sector in the past two years was due to slower growth in Electricity, Gas, Water supply & other utility services and Construction over 2018-19.

**Chart 1.2: depicts the sectoral growth of GSDP over the period from 2016-17 to 2020-21**

(In *per cent*)



Source: Directorate of Economics and Statistics, Government of Arunachal Pradesh (GoAP)

During 2020-21, there was a significant decrease in the growth rate in Agriculture, Industry and Service sectors in comparison with the previous year.

## 1.2 Basis and Approach to State Finances Audit Report

According to 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.

The Accounts wing of the office of Principal Accountant General annually prepares the Finance Accounts and Appropriation Accounts of the State from the vouchers, challans and initial and subsidiary accounts rendered by the treasuries, by the offices and departments responsible for keeping of such accounts functioning under the control of the State Government and by the statements received from the Reserve Bank of India. These accounts are audited independently by the Audit Wing of the office 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 Principal 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 15<sup>th</sup> Finance Commission (XV FC), Arunachal Pradesh State Financial Responsibility and Budget Management (APFRBM) Act and best practices and guidelines of the Government of India (GoI). A meeting was held with State Finance Department on 06 January 2022 wherein the issues included in the report have been discussed. 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 of State Finances</b> This chapter describes the basis and approach to the Report and the underlying data. It provides an overview of structure of government accounts, budgetary processes, macro-fiscal analysis of key indices and fiscal position including 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 and Budgetary Control</b> This chapter is based on the Appropriation Accounts of the State and reviews the appropriations and allocative priorities of the State Government. It also 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 State Public Sector Enterprises</b> This chapters provides a 'bird eye view' on the functioning of the State Public Sector Enterprises (SPSEs). The term SPSEs encompasses the State owned/ controlled Government Companies set up under the Companies Act, 2013 and Statutory Corporations setup under the Statues enacted by the Parliament and State Legislature.

#### 1.4 Overview of Government Account Structure

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 Accounts 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 the 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 and Duties, and grants from Government of India (GoI).

**Revenue Expenditure** consists of all those expenditures 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.*; and
- **Non-debt receipts:** Proceeds from disinvestment, Recoveries of Loans and Advances.

**Capital Expenditure** includes expenditure on the acquisition of land, building, machinery, equipment, expenditure on investment in shares and expenditure on loans and advances by the government to PSUs 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)

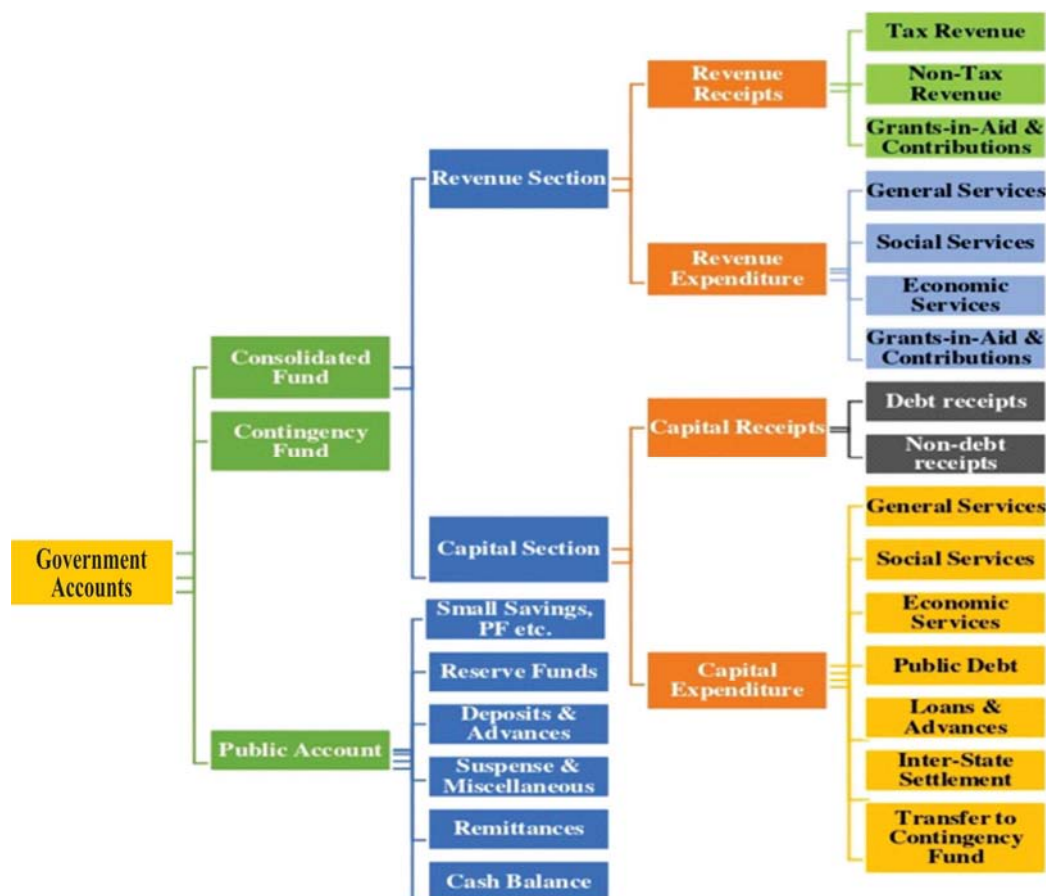
The functional classification lets us know the department, function, scheme or programme and object of the expenditure. Economic classification helps organise these payments as revenue, capital, debt, *etc.* Economic classification is achieved by the numbering logic embedded in the first digit of 4-digit Major Heads. For instance, 0 and 1 are for revenue receipts; 2 and 3 are 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.



## 1.5 Structure of Government Accounts

The layout of the Finance Accounts has been shown in *Appendix 1.1, Part A* and the pictorial depiction of the structure of Government Accounts is given in **Chart 1.3**.

**Chart 1.3: Pictorial depiction of the structure of Government Accounts**



## 1.6 Budgetary Processes

In terms of Article 202 of the Constitution of India, the Governor of State causes to be laid before the State Legislature a statement of the estimated receipts and expenditure of the State for the year 2020-21 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 84 Demands for Grants/ Appropriations. After approval of these grants, the Appropriation Bill is passed by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund. The State has more than one consolidated Budget which are in the nature of sub-budgets like Gender Budget and Outcome budget.

The State Government did not have a Budget Manual to detail the budget formulation process and guide the State Government functionaries in preparing its budgetary estimates and monitoring its expenditure activities. In the absence of the Budget Manual, the Budget preparation exercise is done based on the General Financial Rules issued by the Government of India and also the Budget circulars issued from time to time. Results of audit scrutiny of budget and implementation of other budgetary initiatives of the State Government are detailed in **Chapter III** of this Report.

## 1.7 Summarised Position of Finances

Details of actual financial results *vis-à-vis* Budget Estimates (BEs) for the year 2020-21 *vis-à-vis* actual of 2019-20 are shown in **Table 1.2** provides the details of financial results based on the actuals of 2019-20 and 2020-21.

**Table 1.2: Actual Financial results *vis-à-vis* BEs**

(₹ in crore)

Sl. No.	Components	2019-20 (Actuals)	2020-21 (BEs)	2020-21 (Actuals)	Percentage of Actuals to BEs	Percentage of Actuals of 2020-21 to GSDP
1.	Tax Revenue	1,228.73	806.00	1,431.10	177.56	4.98
2.	Non-Tax Revenue	651.38	600.00	836.53	139.42	2.91
3.	Share of Union Taxes and Duties (a)	8,987.57	14,311.59	10,472.58	73.18	36.46
4.	Grants-in-Aid and Contributions	4,020.87	4,877.00	4,383.30	89.88	15.26
5.	Revenue Receipts (1+2+3+4)	14,888.55	20,594.59	17,123.51	83.15	59.62
6.	Recovery of Loans and Advances	7.03	10.00	5.94	59.40	0.02
7.	Other Receipts	0.00	0.00	0.00	0.00	0.00
8.	Borrowings and other Liabilities (b)	1,031.83	1,675.71	1,086.20	64.82	3.78
9.	Capital Receipts (6+7+8)	1,038.86	1,685.71	1,092.14	64.79	3.80
10.	Total Receipts (5+9)	15,927.41	22,280.30	18,215.65	81.76	63.42
11.	Revenue Expenditure	12,218.73	14,207.60	13,087.50	92.12	45.57
12.	Interest payments	614.53	710.64	752.34	105.87	2.62
13.	Capital Outlay (14+15)	3,709.07	7,128.38	5,128.15	71.94	17.85
14.	Capital Expenditure	3,693.05	7,119.74	5,123.35	71.96	17.84
15.	Loan and advances	16.02	8.64	4.80	55.56	0.02
16.	Total Expenditure (11+14)	15,911.78	21,327.34	18,210.85	85.39	63.41
17.	Total (15+16)	15,927.80	21,335.98	18,215.65	85.38	63.42
18.	Revenue Surplus (5-11)	2,669.82	6,386.99	4,036.01	63.19	14.05
19.	Fiscal Deficit {17-(5+6+7)}	1,032.22	731.39	1,086.20	148.51	3.78
20.	Primary Deficit (19-12)	417.69	20.75	333.86	1,608.96	1.16

Source: Finance Accounts and Annual Financial Statement

(a) Includes State's share of Union Taxes.

(b) 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.

The detailed analysis on the finances of the State Government are made in the subsequent chapters of the report.

## 1.8 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 while the assets comprise mainly the capital outlay, the loans and advances given by the State Government and the cash balances. Summarised Financial position of the Government of Arunachal Pradesh as on 31 March 2021 is given in **Appendix 1.2**.

**Table 1.3: Summarised position of Assets and Liabilities**

(₹ in crore)

Liabilities			Assets		
	2019-20	2020-21		2019-20	2020-21
<b>Consolidated Fund</b>					
Internal Debt	6,298.78	7,348.10	Gross Capital Outlay	32,799.16	37,922.50
Loans and Advances from GoI	152.47	359.71	Loans and Advances	96.99	95.85
<b>Contingency Fund</b>	<b>0.05</b>	<b>0.05</b>			
<b>Public Account</b>					
Small Savings, Provident Funds, etc.	2,503.51	2,719.41	Advances	502.64	507.58
Deposits	239.32	190.53	Remittance	(-213.53)	(-146.61)
Reserve Funds	2,937.38	3,078.86	Cash balance (including investment in Earmarked Fund)	3,013.82	3,389.33
Suspense and Miscellaneous	(-1,260.76)	(-1,292.34)			
Surplus in Revenue Account	25,328.32	29,364.33			
<b>Total</b>	<b>36,199.07</b>	<b>41,768.65</b>	<b>Total</b>	<b>36,199.07</b>	<b>41,768.65</b>

Source: Finance Accounts of respective years

## 1.9 Trends in Key Fiscal Parameters

Deficit is an indicator of prudent fiscal management of the Government. Further, two important pointers to fiscal health are how the deficit is financed and how the resources raised are applied. This Section presents trends, nature, magnitude 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 APFRBM Act/ Rules for the financial year 2020-21.

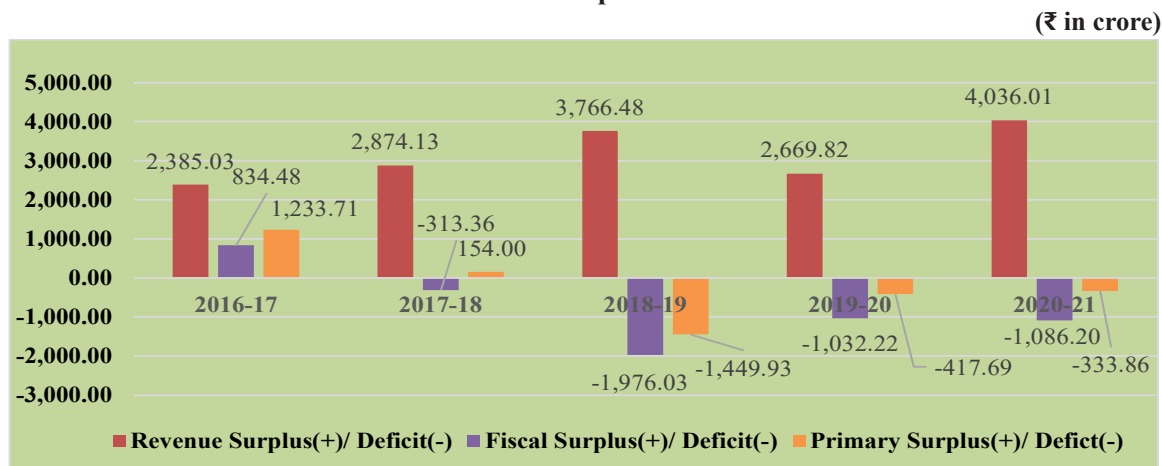
### 1.9.1 What are Deficit and Surplus?

<b>Revenue Deficit/ Surplus</b>	Refers to the gap between Revenue Expenditure and Revenue Receipts
<b>Fiscal Deficit/ Surplus</b>	This is the difference between the Revenue Receipts plus Non-debt Capital Receipts (NDCR) and the Total Expenditure. FD is reflective of the total borrowing requirements of Government
<b>Primary Deficit/ Surplus</b>	Primary Deficit is measured as Fiscal Deficit less interest payments

### 1.9.2 Trends of Deficit/ Surplus

There was a significant surplus in revenue account in 2020-21 which can be attributed to higher percentage increase in revenue receipts compared to percentage increase in Revenue Expenditure. The Revenue Surplus in the current year reached up to ₹4,036.01 crore. However, the actual Revenue Surplus was less than the projected Revenue Surplus during budget of 2020-21 and was also less than the amounts mentioned in MTFP during 2020-21. The trend of the surplus deficit indicators in the past five years are given in **Chart 1.4**.

**Chart 1.4: Trends in Surplus/ Deficit indicators**



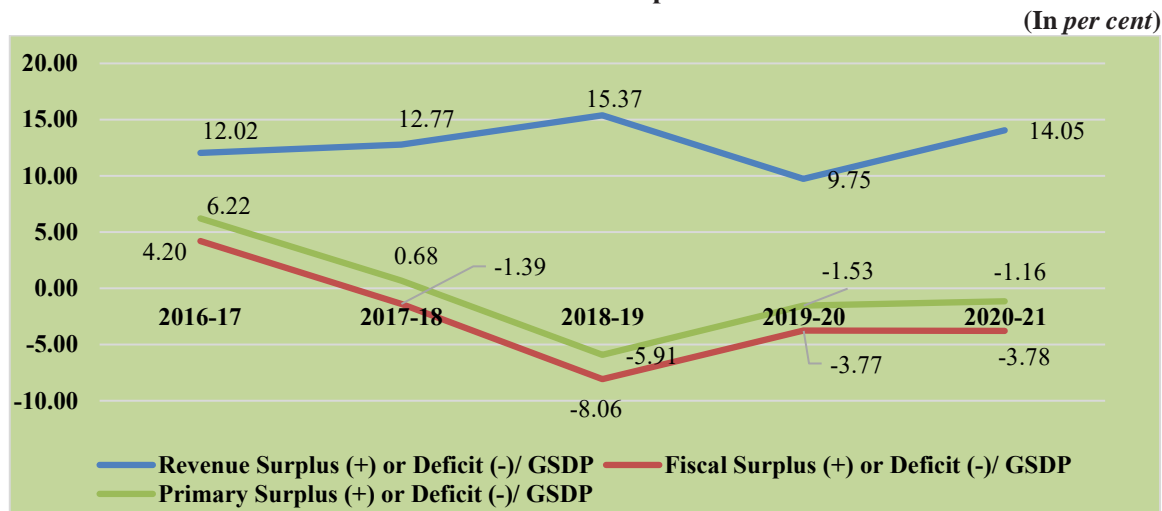
Source: Finance Accounts of respective years

There exists a post-devolution Revenue Surplus. The post-devolution Revenue Surplus indicated in the budget was more than the projections made by the XV FC by ₹518.99 crore, indicating that the budget expected higher revenue by way of devolution. At the Revised Estimates stage, the Revenue Surplus was significantly revised which was ₹332.90 crore less than the projection made in the XV FC, due to devolution from center being significantly less than the estimate of XV FC. However, the actual Revenue Surplus fell short of even the Revised Estimates projections. Against the Revenue Surplus of ₹6,386.99 crore projected in BEs, the year ended with a Revenue Surplus of ₹4,036.01 crore indicating that the budget was not prepared realistically.

The Primary Surplus experienced by the State during the period 2016-17 and 2017-18 took a turnaround with a Primary Deficit of ₹1,449.93 crore in 2018-19. Thereafter, the Primary Deficit steadily reduced to ₹333.86 crore in 2020-21. This Primary Deficit in the period 2018-19 to 2020-21 indicates that the interest payments of the state was met from net borrowings of the State. This could be partly attributable to lack of control on the Revenue Expenditure of the State with reference to the available resources.

The trend of these surplus and deficits with respect to GSDP over the five-year period from 2016-17 to 2020-21 is depicted in **Chart 1.5**.

**Chart 1.5: Trends in Deficit/ Surplus relative to GSDP**



Source: Finance Accounts of respective years

**Chart 1.5** reveals that the State maintained Revenue Surplus during the period 2016-17 to 2020-21, which increased from ₹2,385.03 crore in 2016-17 to ₹4,036.01 crore in 2020-21. Revenue Surplus in 2020-21 (₹4,036.01 crore) increased by ₹1,366.19 crore (*i.e.* an increase of 51.17 *per cent*) over 2019-20. This was due to significant increase in Revenue Receipts by ₹2,234.96 crore (15.01 *per cent*) over previous year (₹14,888.55 crore). Fiscal Surplus, which represents excess of non-debt creating revenues over borrowings, decreased from ₹834.48 crore in 2016-17 and turned into Fiscal Deficit in 2017-18 (₹313.36 crore). Fiscal Deficit reached its peak in 2018-19 at ₹1,976.03 crore and thereafter reduced in next two years with Fiscal Deficit in 2020-21 of ₹1,086.20 crore. During 2020-21, the Fiscal Deficit increased by ₹53.98 crore (5.23 *per cent*) due to increase of Capital Expenditure of ₹1,430.30 crore over the previous year.

The CAGR of the Revenue Receipts during 2019-20 to 2020-21 in the State was higher than that of NE&H States indicating that State received more fund from GoI than the average of NE&H States. For instance, CAGR of the State' share in Union Taxes and Duties of the State during 2019-20 to 2020-21 was 16.51 *per cent* while it was (-)11.34 *per cent* of NE&H States.

Further, in 2020-21, the State Government experienced Fiscal Deficit of ₹1,086.20 crore as against the projected amount of ₹731.39 crore in BEs. Thus, the actual Fiscal Deficit exceeded the projections made in the budget by 48.51 *per cent* (₹354.81 crore).

### 1.9.3 Components of Fiscal Deficit and its Financing Pattern

The share of Revenue Deficit in Fiscal Deficit indicates the extent to which borrowed funds were used for current consumption. Persistently high ratio of Revenue Deficit to Fiscal Deficit also indicates that the asset base of the State is continuously being eroded and a part of borrowings (Fiscal Liabilities) does not have any asset backup. However, in case of Arunachal Pradesh, there was a Revenue Surplus for five-year period from 2016-17 to 2020-21.

The financing pattern of fiscal deficit has undergone a compositional shift as reflected below in **Table 1.4**.

**Table 1.4: Components of Fiscal Deficit and its financing pattern**

(₹ in crore)

Sl. No.	Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Decomposition of Fiscal Deficit</b>						
	<b>Fiscal Deficit (-)/ Surplus (+)</b>	<b>834.48</b>	<b>(-)313.36</b>	<b>(-)1,976.03</b>	<b>(-)1,032.22</b>	<b>(-)1086.20</b>
1.	Revenue Surplus	2,385.03	2,874.13	3,766.48	2,669.82	4,036.01
2.	Net Capital Expenditure	(-)1,544.01	(-)3,188.10	(-)5,727.43	(-)3,693.05	(-)5,123.35
3.	Net Loans and Advances	(-)6.54	0.61	(-)15.08	(-)8.99	1.14
<b>Financing pattern of Fiscal Deficit</b>						
1.	Market Borrowings	287.28	703.10	762.96	1,288.08	767.81
2.	Other Loans	-	(-)6.85	4.16	(-) 3.73	(-)3.73
3.	Loans from GoI	(-)26.45	(-)26.43	(-)26.36	(-) 26.28	207.25
4.	Special Securities issued to NSSF	86.77	93.42	50.45	77.36	146.91
5.	Loans from Financial Institutions	89.21	115.97	189.64	101.67	138.33
6.	Small Savings, PF, etc.	157.23	241.13	225.89	275.14	215.90

Sl. No.	Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Decomposition of Fiscal Deficit</b>						
7.	Reserve Funds	171.55	137.87	307.32	1,906.08	141.47
8.	Deposits and Advances	(-)1,305.66	(-)134.19	(-)75.93	(-) 77.23	(-)53.73
9.	Suspense and Miscellaneous	148.74	(-)404.85	(-)176.63	(-)2,678.97	(-)31.58
10.	Remittances	(-)363.18	34.09	1,134.66	(-)1,367.05	(-)66.92
11.	Increase (-)/ Decrease (+) in cash balances	(-)71.67	(-)895.72	(-)364.49	1,537.15	(-)375.51
12.	Increase/ Decrease in WMAs, Overdraft	(-)8.30	455.82	(-)55.64	0.00	0.00
<b>Overall Deficit (1 to 11) (-)</b>		<b>(-)834.48</b>	<b>313.36</b>	<b>1,976.03</b>	<b>1,032.22</b>	<b>1,086.20</b>

Source: Finance Accounts of respective years

The components of fiscal deficit consisted of Revenue Surplus, Net Loans and Advances and Net Capital Expenditure. Since the State is Revenue Surplus from 2016-17 itself, the Surplus on Revenue Account were utilised to finance Capital Expenditure. As seen from the above **Table**, the total Capital Expenditure was financed by Revenue Surplus in 2016-17. In 2017-21, Revenue Surplus could finance only 78.78 to 90.15 *per cent* of Capital Expenditure due to the huge increase in Capital Expenditure. During 2020-21, Capital Expenditure increased (₹1,430.30 crore; 38.73 *per cent*) mainly due to increase under roads and bridges, public works, social welfare and nutrition and flood control projects (**Reference: Paragraph 2.6.4.1; Table 2.25**).

**Table 1.5: Receipts and Disbursements under components Financing the Fiscal Deficit**

Particulars	(₹ in crore)		
	Receipt	Disbursement	Net
Market Borrowings	767.81	0.00	767.81
Loans from GoI	232.97	25.72	207.25
Special Securities issued to NSSF	263.57	116.66	146.91
Loans from Financial Institutions	251.71	113.38	138.33
Other loans	0.00	3.73	(-)3.73
Small Savings, PF, etc.	749.47	533.57	215.90
Deposits and Advances	336.35	390.08	(-)53.73
Suspense and Miscellaneous	1.16	32.74	(-)31.58
Remittances	3,096.12	3,163.04	(-)66.92
Reserve Fund	340.57	199.11	141.47
<b>Overall Deficit</b>			<b>1,461.71</b>
Increase/ Decrease in cash balance			(-)375.51
<b>Gross Fiscal Deficit</b>			<b>1,086.20</b>

Source: Finance Accounts 2020-21

In 2020-21, there was increased market borrowings, Loans from GoI, Reserve fund and Small Savings, PF, etc., which was partly offset by decrease in Suspense and Miscellaneous and Remittances.

#### 1.9.4 Actual Revenue Surplus and Fiscal Deficit

Excessive focus on short-term objectives for overcoming Fiscal Deficit, encourages creative accounting and recourse to one-off deficit-reducing measures. **Table 1.6** assesses actual Surplus/ Deficit after taking into account short/ non-contribution to funds and incorrect classifications/ booking by the State Government during 2020-21.



**Table 1.6: Actual Revenue Surplus and Fiscal Deficit**

(₹ in crore)

Particulars	Impact on Understated (+)/ Overstated (-)	
	Revenue Surplus	Fiscal Deficit
Non-transfer of labour Cess to Arunachal Pradesh Building and Other Construction Workers Welfare Board	(-)19.29	(-)19.29
Non-discharge of Interest liabilities	(-)66.91	(-)66.91
Short Contribution of Government matching share towards National Pension System	(-)38.04	(-)38.04
Minor works budgeted/ booked under Capital Section instead of Revenue	(-)76.08	-
Transfer of previous year's share of State Disaster Response Fund	(+)31.50	(+)31.50
Non-transfer of National Disaster Response Fund to Public Account	(-)59.34	(-)59.34
<b>Total</b>	<b>(-)228.16</b>	<b>(-)152.08</b>

Source: Finance Accounts, 2020-21

As can be seen from the above **Table**, there was an overstatement of Revenue Surplus by ₹228.16 crore during the year. However, considering that the overall Revenue Surplus depicted in the accounts was ₹4,036.01 crore, the State would have a Revenue Surplus of ₹3,807.85 crore during 2020-21 even after considering the items of misclassification, that have resulted in overstatement.

Similarly, the Fiscal Deficit during the year 2020-21 was also found overstated by ₹152.08 crore. Considering that, the State would have Fiscal Deficit of ₹934.12 crore during 2020-21.

### 1.10 Fiscal Balance: Achievement of Deficit and Total Debt Targets

Deficit indicators, revenue augmentation and expenditure management are major yardsticks for judging the fiscal performance of the Government. Prudent financial management involves the generation of an annual Revenue Surplus (Revenue Receipts exceeding Revenue Expenditure). The Twelfth Finance Commission recommended that States enact their own Fiscal Responsibility and Budget Management (FRBM) Acts committing them to achieving Revenue Surplus and limiting Fiscal Deficit to 2.28 per cent of GSDP.

The Legislature of Arunachal Pradesh have passed Fiscal Responsibility and Budget Management Act (APFRBM) in the year 2006 with the objective of ensuring prudence in fiscal management by eliminating revenue deficit, reducing Fiscal Deficit and overall/ outstanding debt to acceptable level, establishing improved debt management and improving transparency in a medium-term framework. In this context, the Act provides quantitative targets to be adhered by the state with regard to deficit measures and debt level. Further, the Legislature of the State amended the Arunachal Pradesh FRBM Act 2018 in March 2018 in line with the XIV FC recommendations and it came into force with effect from 01 April 2015 details in **Appendix 1.3**. Moreover, the XV FC recommended (Paragraph 1.25 of XV FC) that the amended FRBM Act (amended in March 2018) should be fully adhered to for the year 2020-21.



As per FRBM Act, the State Government was to maintain Revenue Surplus during the period 2020-21, reduce fiscal deficit to not more than three *per cent* subject to fulfilling the conditions stipulated in the FRBM Act and limit the Outstanding Debt-GSDP ratio to less than 25 *per cent*.

Targets relating to key fiscal parameters envisaged in the amended APFRBM Act for the 2016-17 to 2020-21 respectively are given below in **Table 1.7**.

**Table 1.7: Compliance with provisions of APFRBM Act**

Fiscal Parameters	Fiscal targets set in FRBM for the year 2016-17 to 2020-21	Achievement (₹ in crore)				
		2016-17	2017-18	2018-19	2019-20	2020-21
Revenue Deficit (-)/ Surplus (+) (₹ in crore)	Revenue Surplus	2,385.03	2,874.13	3,766.48	2,669.82	4,036.01
		✓	✓	✓	✓	✓
Fiscal Deficit as percentage of GSDP	Three <i>per cent</i>	Fiscal Surplus	(-)1.39	(-)8.06	(-)3.77	(-)3.78
		✓	✓	✗	✗	✗
Ratio of total outstanding debt to GSDP (in <i>per cent</i> )	25 <i>per cent</i>	28.34	32.03	35.04	44.31	47.69
		✗	✗	✗	✗	✗

Source: Finance Accounts of respective years

The State Government was successful in maintaining Revenue Surplus as targeted in APFRBM Act during the last five years. The state maintained Fiscal Surplus during 2016-17. However, from the year 2017-18 onwards the trend of Fiscal Surplus reversed and the State went into Fiscal Deficit which was below three *per cent* of GSDP in 2017-18. However, from 2018-19 to 2019-20, Fiscal Deficit as a percentage of GSDP exceeded the limit prescribed in the APFRBM Act. In the current year, the Fiscal Deficit and outstanding debt of the State Government could not be anchored to the levels prescribed in the FRBM (as per XV FC recommendations), as it was 3.78 and 47.69 *per cent* of GSDP respectively.

As per the APFRBM Act, the State Government has to lay before the State Legislature, a Five-Year Fiscal Plan along with the Annual Budget. The Medium-Term Fiscal Plan (MTFP) has to set forth a five-year rolling target for the prescribed fiscal indicators.

**Table 1.8** indicates the variation between the projections made for 2020-21 in MTFP presented to the State Legislature with the Annual Budget for 2020-21 and Actuals for the year 2020-21.

**Table 1.8: Actuals vis-à-vis projection in MTFP for 2020-21**

(₹ in crore)

Sl. No.	Fiscal Variables	Projection as per MTFP	Actuals (2020-21)	Variation
1.	Own Tax Revenue	1,316.00	1,431.10	115.10 (8.75)
2.	Non-Tax Revenue	600.00	836.53	236.53 (39.42)
3.	Share of Central Taxes	13,801.59	10,472.58	(-)3,329.01(24.12)
4.	Grants-in-Aid from GoI	4,877.00	4,383.30	(-)493.70(10.12)
5.	Revenue Receipts (1+2+3+4)	20,594.59	17,123.51	(-)3,471.08(16.85)

Sl. No.	Fiscal Variables	Projection as per MTFP	Actuals (2020-21)	Variation
6.	Revenue Expenditure	14,207.60	13,087.50	(-),1,120.10(7.88)
7.	Revenue Surplus (5-6)	6,386.99	4,036.01	(-),2,350.98(36.81)
8.	Fiscal Deficit	731.40	1,086.20	354.80(48.51)
9.	Debt-GSDP ratio ( <i>per cent</i> )	43.94	47.69	3.75(8.53)
10.	GSDP growth rate at current prices ( <i>per cent</i> )	4.99	4.91	(-)0.08(1.60)

Source: MTFP Statement and Finance Accounts 2020-21

The State could not mobilise the resources as envisaged in its MTFP as the actual receipts fell short of the projections by 16.85 *per cent*. The State MTFP envisaged containing Revenue Expenditure by reducing administrative costs through austerity measures and pegged the Revenue Expenditure at ₹14,207.60 crore. The actual Revenue Expenditure was less than the projected expenditure by ₹1,120.10 crore (7.88 *per cent*). It was observed that the reduction in the resources was 16.85 *per cent* but the reduction in expenditure was not proportionate, due to which the Revenue Surplus indicated in the MTFP could not be achieved. This non-achievement of targeted Revenue Surplus impacted the Capital Expenditure of the Government which was meant for improvement of infrastructure in the State. The actual Revenue Surplus fell short of the target by ₹2,350.98 crore constituting a short fall of 36.80 *per cent*. The Debt-GSDP ratio also increased to 47.69 *per cent*. The Revenue Expenditure increased by 7.11 *per cent* over the previous year and the Fiscal Deficit could not meet the targets set in the MTFP.

The State Government in its reply (January 2022) stated that the comments would be forwarded after due verification and examining the issues. However, the comments of the State Government is awaited.

### 1.11 Conclusion

- The State GSDP was ₹28,721.36 crore during 2020-21 with a growth rate of 4.91 *per cent* over the previous year which was higher than the growth rate of all India GDP. Service sector was the major contributor of GSDP during the year with 40.66 *per cent*. Agriculture was the second major contributor with 29.22 *per cent* while Industry and Taxes on products were third and fourth contributors with 25.80 and 4.32 *per cent* respectively.
- The State had managed to achieve surplus on Revenue account during last five years and the Revenue Surplus (₹4,036.01 crore) during the year increased by 51.17 *per cent* (₹1,366.19 crore) over the previous year (₹2,669.82 crore).
- The Fiscal Deficit (₹1,086.20 crore) increased by 5.23 *per cent* (₹53.98 crore) over the previous year (₹1,032.22 crore).
- The State was able to meet the projections made under Arunachal Pradesh FRBM regarding Revenue Surplus, but could not manage to achieve the ceiling prescribed for Fiscal Deficit-GSDP ratio and Outstanding Debt-GSDP ratio.

## **1.12 Recommendations**

- State Government may take measures to keep the Fiscal Deficit-GSDP ratio and Outstanding Debt-GSDP ratio under the ceilings prescribed in the Arunachal Pradesh FRBM Act through prudent financial management.