CHAPTER-1
OVERVIEW

Chapter 1: Overview

1.1 Profile of the State

Mizoram is situated in the North-Eastern Region (NER) of India bordering three of the seven states in the NER[1] and shares an international border with Myanmar and Bangladesh. It is the fifth smallest State of India in terms of geographical area (21,081 sq.km.) and second least populated State in the country. The population of the State increased from 8,88,573 in 2001 to 10,97,206 in 2011 at a decadal growth rate of 23.48 *per cent* which was higher than the National decadal growth rate of 12.30 *per cent*. The projected population as of March 2021 was 13,54,825.

The State has eleven districts and three Autonomous District Councils (ADCs). The per capita GSDP (advance estimates) of the State at current prices was ₹ 2,40,298 during 2020-21, which was more than the North Eastern and Himalayan States' average of ₹ 1,39,572 and all India average of ₹ 1,45,680. General and financial data relating to the State are given in ***Appendix I.***

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.

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 Service sectors. **Table 1.1** provides the comparison of the GDP and GSDP for the period 2016-17 to 2020-21.

Table 1.1 : Trends in GSDP compared to GDP

(₹ in crore)

Year	2016-17	2017-18	2018-19	2019-20	2020-21
GDP at current price	1,53,91,669	1,70,90,042	1,88,86,957	2,03,51,013	1,97,45,670
Growth rate of GDP over previous year (in *per cent*)	11.76	11.03	10.51	7.75	-2.97
GSDP at current prices	17,192	19,385	21,879	25,149	29,076
Growth rate of GSDP over previous year (in *per cent*)	13.56	12.76	12.87	14.94	15.62

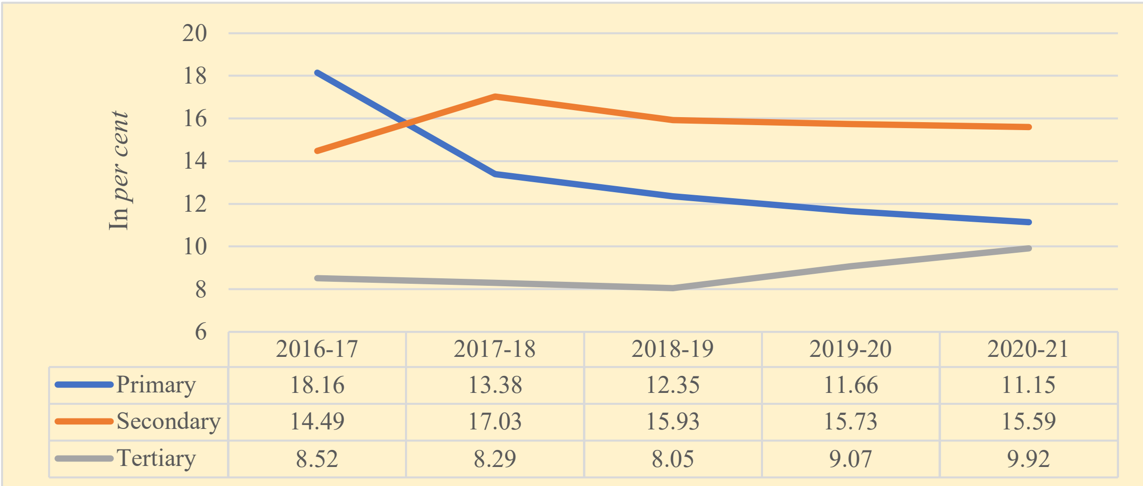
Source: GoI's Economic Survey and Department of Economics and Statistics, State Government.

[1] Assam, Manipur and Tripura

As can be seen from the preceding table, the GSDP of Mizoram grew at a higher rate during the period from 2016-17 to 2020-21 as compared to the National GDP. During the last five years, GSDP of Mizoram registered the lowest growth rate of 12.76 *per cent* during 2017-18.

Chart 1.1 reveals that during the five-year period from 2016-17 to 2020-21, there has been a significant decrease in the growth rate of the Primary sector in GSDP, declining from 18.16 *per cent* in 2016-17 to 11.15 *per cent* in 2020-21. The growth rate of Secondary sector, showed a sharp increase in 2017-18 (17 *per cent*) to subsequently drop and remained more or less static over the period from 2018-19 to 2020-21, at 15.59 *per cent*. The growth rate of the Tertiary sector ranged from 8.05 to 9.92 *per cent* during the period.

Chart 1.1 : Sectoral growth in GSDP

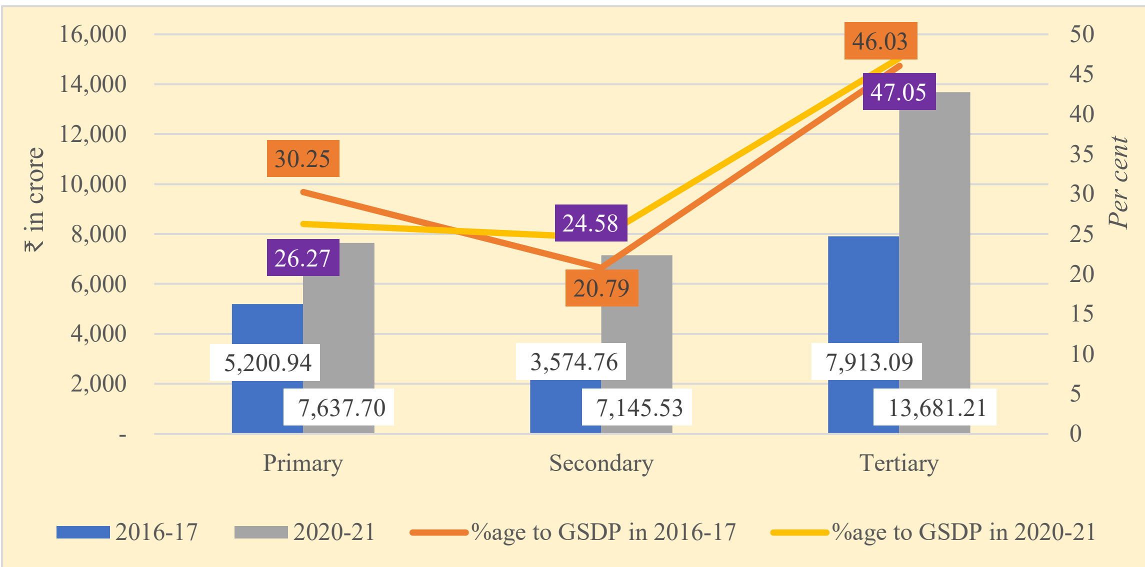


	2016-17	2017-18	2018-19	2019-20	2020-21
Primary	18.16	13.38	12.35	11.66	11.15
Secondary	14.49	17.03	15.93	15.73	15.59
Tertiary	8.52	8.29	8.05	9.07	9.92

Source: Department of Economics and Statistics, Government of Mizoram

Chart 1.2 shows the change in sectoral contribution between the years 2016-17 and 2020-21.

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



Source: Department of Economics and Statistics, Government of Mizoram

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 State Legislature. The State Finances Audit Report (SFAR) is prepared and submitted under Article 151 (2) of the Constitution of India.

Accounts Wing of the Office of the Principal Accountant General, Mizoram prepares Finance Accounts and Appropriation Accounts of Government of Mizoram (GoM) annually, from the vouchers, challans and initial and subsidiary accounts rendered by the treasuries, State Government offices and Departments responsible for keeping of such accounts as well as statements received from the Reserve Bank of India. These accounts are audited independently by the Audit Wing of the Office of the Principal Accountant General, 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 Pr. Accountant General (Audit);
- Other data with Departmental Authorities and Treasuries (accounting as well as Management Information System),
- 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), the State Financial Responsibility and Budget Management Act, best practices and guidelines of Government of India.

1.3 Report Structure

The SFAR is structured into the following five Chapters:

Chapter - 1	**Overview** 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.
Chapter - 2	**Finances of the State** 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.

Chapter - 3	**Budgetary Management** 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.
Chapter - 4	**Quality of Accounts & Financial Reporting Practices** 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.
Chapter - 5	**Functioning of State Public Sector Enterprises** This Chapter gives an overall picture of the financial performance of State Public Sector Enterprises (SPSEs), as revealed from their accounts. It also contains the impact of revision of accounts as well as significant comments issued during supplementary audit of the financial statements of the SPSEs conducted by the C&AG.

1.4 Overview of Government Accounts' 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 expenditures (Voted expenditure) are 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 the 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 expenditure 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 Own Tax Revenue (OTR), Non-Tax Revenue (NTR), share of Union Taxes/ Duties, and Grants-in-Aid (GIA) 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** consists 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, buildings, machinery, equipment, investment in shares and loans and advances by the Government to PSUs and other parties.

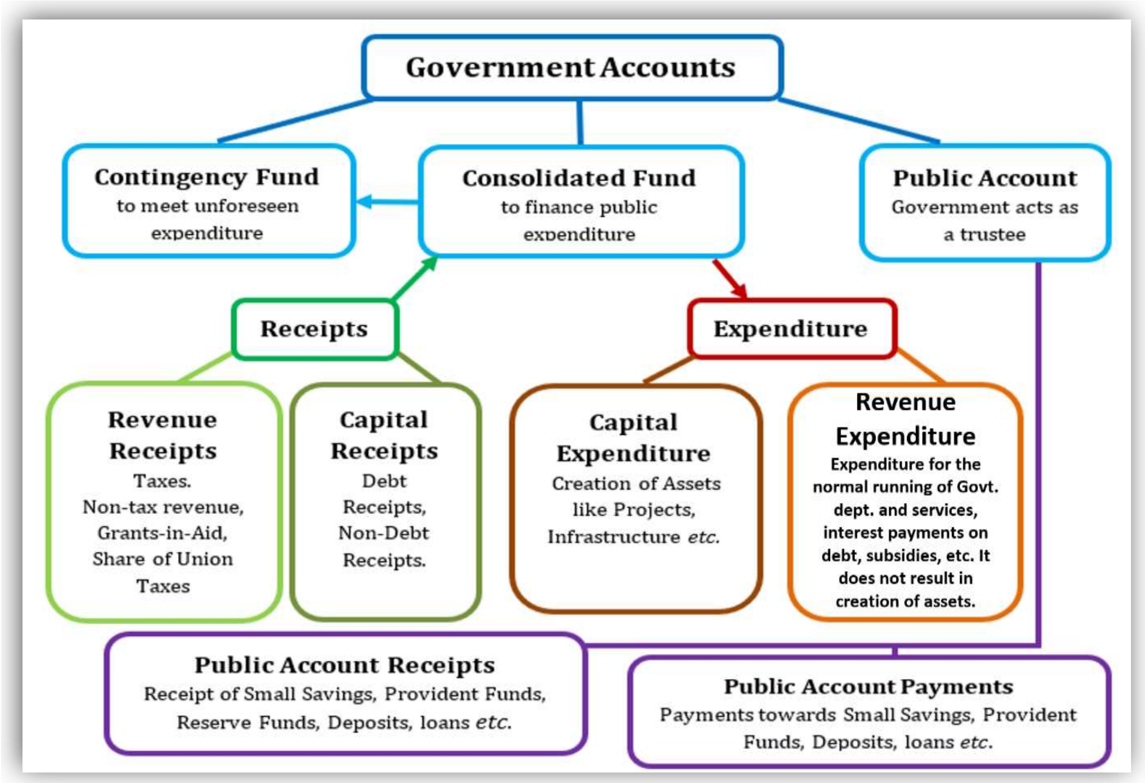
At present, we have an accounting classification system in government that is both functional and economic.

Table 1.2 : Classification of Accounts

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

The functional classification gives information about 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, and 4 and 5 for capital 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 1.3 : Structure of Government Accounts



Budgetary Processes

In terms of Article 202 of the Constitution of India, the Governor of Mizoram 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 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.

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 Snapshot of Finances

The following table provides the details of the financial actuals *vis-a-vis* the Budget Estimates for the year 2020-21 and the actuals of 2019-20.

Table 1.3 : Details of financial results for the year 2020-21

(₹ in crore)

Sl. No.	Components	2019-20 (Actuals)	2020-21		Percentage of Actuals to BEs	Percentage of Actuals to GSDP
			(Budget Estimates)	(Actuals)		
1	Tax Revenue	730.98	661.69	647.56	97.86	2.23
2	Non-Tax Revenue	522.35	583.07	561.76	96.35	1.93
3	Share of Union Taxes/Duties[a]	3,017.80	3,967.96	3,010.55	75.87	10.35
4	Grants-in-aid and Contributions	5,387.13	4,572.24	3,520.80	77.00	12.11
5	**Revenue Receipts (1+2+3+4)**	**9,658.26**	**9,784.96**	**7,740.67**	**79.11**	**26.62**
6	Recovery of Loans and Advances	26.70	41.16	33.69	81.85	0.12
7	Other Receipts	NIL	NIL	NIL	NIL	NIL
8	Borrowings and other Liabilities[b]	1,147.68	888.88	2,611.32	293.78	8.98
9	**Capital Receipts (6+7+8)**	**1,174.38**	**930.04**	**2,645.01**	**284.40**	**9.10**
10	**Total Receipts (5+9)**	**10,832.64**	**10,715.00**	**10,385.68**	**96.93**	**35.72**
11	**Revenue Expenditure**	**9,453.96**	**9,021.85**	**8,514.80**	**94.38**	**29.28**
12	Interest Payments	343.12	369.68	400.99	108.47	1.38
13	**Capital Expenditure**	**1,372.67**	**1,320.86**	**1,125.97**	**85.25**	**3.87**
14	Capital Outlay	1,372.67	1,320.86	1,125.97	85.25	3.87
15	**Loan and Advances**	**82.63**	**3.10**	**2.90**	**93.55**	**0.01**
16	**Total Expenditure (11+13+15)**	**10,909.26**	**10,345.81**	**9,643.67**	**93.21**	**33.17**
17	**Revenue Deficit(-)/Revenue Surplus (+) (5-11)**	**204.30**	**763.11**	**-774.13**	**-101.44**	**2.66**
18	**Fiscal Deficit {16-(5+6+7)}**	**1,224.30**	**519.69**	**1,869.31**	**359.70**	**6.43**
19	**Primary Deficit (18-12)**	**881.18**	**150.01**	**1,468.32**	**978.82**	**5.05**

Source: Finance Accounts

(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.

(c) Expenditure on Capital Account includes Capital Expenditure and Loans and Advances disbursed

During 2020-21, Revenue Receipts (₹ 7,740.67 crore) fell short of the estimates (₹ 9,784.96 crore), which was compensated by Debt-Capital Receipts (₹ 2,645.01 crore) in excess of estimates (₹ 930.04 crore). However, total receipts fell short of budget estimates for the year by about 3 *per cent*. Both Revenue and Capital Expenditure fell short of estimates for the year by ₹ 507.05 crore and ₹ 194.89 crore respectively. As a result, total expenditure (₹ 9,643.67 crore) was 93.21 *per cent* of budget estimates for the year.

The State had a Revenue Deficit of ₹ 774.13 crore though the State had anticipated a Revenue Surplus of ₹ 763.11 crore for the year 2020-21. Similarly, Fiscal Deficit and Primary Deficits for 2020-21 stood at ₹ 1,869.31 crore (*vis-à-vis* target of ₹ 519.69 crore) and ₹ 1,468.32 crore (*vis-à-vis* target of ₹ 150.01 crore) respectively.

With respect to GSDP, Revenue and Capital Receipts contributed 26.62 *per cent* and 9.10 *per cent* respectively to the GSDP for the year 2020-21.

1.4.2 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, though comprehensive accounting of fixed assets like land and buildings owned by the Government is not done in the existing Government accounting system. The liabilities consist mainly of internal borrowings, loans and advances from Government of India (GoI), receipts into 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 1.4 shows summarised position of Assets and Liabilities for Government of Mizoram as on 31 March 2021 *vis-a-vis* the position as on 31 March 2020.

Table 1.4 : Summarised position of Assets and Liabilities

(₹ in crore)

As on 31.03.20	Liabilities	As on 31.03.21	As on 31.03.20	Assets	As on 31.03.21
Consolidated Fund of the State					
3,758.92	Internal Debt	4,527.09	15,384.95	Gross Capital Outlay on Fixed Assets	16,510.92
259.10	Loans and Advances from Central Government	484.36	303.42	Loans and Advances	272.63
Contingency Fund					
0.10	Contingency Fund	0.10	0.00	Civil Advances	0.00
Public Account					
2,187.45	Small Savings, Provident Funds, *etc.*	2,403.34	51.86	Remittance Balances	0.00
2,247.03	Deposits	2,223.68	167.89	Cash Balance	9.08
568.24	Reserve Funds	619.17	341.54	Investment out of Reserve Fund	385.54
871.59	Suspense and Miscellaneous	1,252.97			
0.00	Remittance Balances	84.36			
6,357.23	Surplus on Government Account	5,583.10			
16,249.66	**Total**	**17,178.17**	**16,249.66**	**Total**	**17,178.17**

Source: Statement No. 1 of Finance Accounts 2020-21

As can be seen from the table above, during 2020-21, assets and liabilities (excluding surplus on Government Accounts) both increased by ₹ 928.51 crore and ₹ 1,702.64 crore respectively. Further, the growth rate of assets decreased from 10.79 *per cent* in 2019-20 to 5.71 *per cent* in 2020-21, whereas, the growth rate of liabilities, excluding surplus on Government Accounts, increased from 16.18 *per cent* in 2019-20 to 17.21 *per cent* in 2020-21.

1.5 Fiscal Balance: Achievement of Deficit and total Debt targets

When a government spends more than it collects by way of revenue, it incurs a deficit. There are various measures that capture government deficit.

Revenue Deficit/ Surplus (Revenue Expenditure – Revenue Receipts)	*It refers to the difference between revenue expenditure and revenue receipts.* • When the government incurs a revenue deficit, it implies that the government is dissaving and is using up the savings of the other sectors of the economy to finance a part of its consumption expenditure. • Existence of revenue deficit is a cause of concern as it indicates that revenue receipts were not able to meet even the revenue expenditure. Moreover, part of capital receipts was utilised to meet revenue expenditure, reducing availability of capital resources to that extent for creation of capital assets. • This situation means that the government have to borrow not only to finance its investment but also its consumption requirements. This leads to a build-up of stock of debt and interest liabilities and forces the government, eventually, to cut expenditure. • If major part of revenue expenditure is committed expenditure (interest liabilities, salaries, pensions), the government reduces productive expenditure or welfare expenditure. This would mean lower growth and adverse welfare implications.
Fiscal Deficit/ Surplus {Total expenditure – (Revenue receipts + Non-debt creating capital receipts)}	*It is the difference between the Revenue Receipts plus Non-debt Capital Receipts (NDCR) and the total expenditure. Fiscal Deficit is reflective of the total borrowing requirements of Government.* • Fiscal deficit is the difference between the government's total expenditure and its total receipts excluding borrowing. • Non-debt creating capital receipts are those receipts, which are not borrowings, and, therefore, do not give rise to debt. Examples are recovery of loans and the proceeds from the sale of shares of PSUs. • The fiscal deficit will have to be financed through borrowing. Thus, it indicates the total borrowing requirements of the government from all sources. Governments usually run fiscal deficits and borrow funds for capital/ assets formation or for creation of economic and social infrastructure, so that assets created through borrowings could pay for themselves by generating an income stream. Thus, it is desirable to fully utilise borrowed funds for the creation of capital assets and to use revenue receipts for the repayment of principal and interest.
Primary Deficit/ (Gross fiscal deficit – Net Interest liabilities)	*It refers to the fiscal deficit minus the interest payments.* • Net interest liabilities consist of interest payments minus interest receipts by the government on net domestic lending. • The borrowing requirement of the government includes interest obligations on accumulated debt. To obtain an estimate of borrowing because of current expenditures exceeding revenues, we need to calculate the primary deficit.

Deficits must be financed by borrowing giving rise to government debt. The concepts of deficits and debt are closely related. Deficits can be thought of as a flow which add to the stock of debt. If the government continues to borrow year after year, it leads to the accumulation of debt and the government has to pay more and more by way of interest. These interest payments themselves contribute to the debt.

By borrowing, the government transfers the burden of reduced consumption on future generations. This is because it borrows by issuing bonds to the people living at present but may decide to pay off the bonds some twenty years later by raising taxes or reducing expenditure. Also, government borrowing from the people reduces the savings available to the private sector. To the extent that this reduces capital formation and growth, debt acts as a 'burden' on future generations.

However, if government deficits succeed in their goal of raising production, there will be more income and, therefore, more savings. In this case, both government and industry can borrow more. Also, if the government invests in infrastructure, future generations may be better off, provided the return on such investments is greater than the rate of interest. The actual debt could be paid off by the growth in output. The debt should not then be considered burdensome. The growth in debt will have to be judged by the growth of the economy (State GDP) as a whole.

Government deficit can be reduced by an increase in taxes or reduction in expenditure. There has also been an attempt to raise receipts through the sale of shares in PSUs. However, the major thrust has been towards reduction in government expenditure. This could be achieved through making government activities more efficient through better planning of programmes and better administration.

Also, government borrowing from the people reduces the savings available to the private sector. To the extent that this reduces capital formation and growth, debt acts as a 'burden' on future generations

The Central and State Governments have passed Fiscal Responsibility and Budget Management Act (FRBM) with the objective of ensuring prudence in fiscal management by eliminating revenue deficits, reducing fiscal deficits and keeping overall/ outstanding debt to acceptable levels, establishing improved debt management and improving transparency in a medium term framework. In this context, the Act provides quantitative targets to be adhered to by the state with regard to deficit measures and debt level.

Government of Mizoram enacted the Mizoram Fiscal Responsibility and Budget Management (MZFRBM) Act, 2006 in line with the Union FRBM Act, 2003, to ensure stability and sustainability, improve efficiency and transparency in management of public finances, enhance the availability of resources by achieving sufficient revenue surplus, reduce fiscal deficit and remove impediments to effective conduct of fiscal policy and prudent debt management.

In line with the recommendations of Finance Commissions, the MZFRBM Act was amended thrice, with the latest amendment being in September 2020.

As per the provisions of the MZFRBM Act, 2006 the State Government is required to prepare every year, a Medium Term Fiscal Policy Statement (MTFPS) showing the rolling fiscal targets, in addition to the Fiscal Correction Path (FCP). Due to this, the fiscal targets set by XIV FC have been adopted in the MTFPS laid before the Mizoram Legislative Assembly.

The period of the Fourteenth Finance Commission has ended and the Fifteenth Finance Commission (XV FC) was constituted by the President of India on 27 November 2017. The XV FC was initially expected to submit its reports by November 2019. However, with the creation of two new Union Territories by the Jammu and Kashmir Reorganisation Act, 2019, the Commission submitted an interim Report for the year 2020-21 which was substantially accepted by Government of India. The XV FC in its report for 2020-21 did not recommend any significant change in fiscal reformation thereby implying that the architecture introduced by XIV FC is still relevant

The status of achievement *vis-à-vis* projections set during the period 2016-17 to 2020-21 is given in **Table 1.5**.

Table 1.5 : Compliance with provisions of State FRBM Act

Fiscal Parameters	Fiscal Targets	Achievement[2]				
		2016-17	2017-18	2018-19	2019-20	2020-21
Revenue Deficit (-) / Surplus (+) *(₹ in crore)*	Revenue Surplus (As *per* State FRBM Act the target had not been set in quantifiable terms)	1167.96	1699.43	1533.91	204.31	-774.13
		✓	✓	✓	✓	✗
Fiscal Deficit (-) / Surplus (+) (as percentage of GSDP)	Targets (below): 2016-17 to 2018-19 - 3 *per cent* 2019-20 - 8.34 *per cent*[3] 2020-21 - 6.40 *per cent*[4]	251.95	-320.23	-352.92	-1,224.30	-1,869.31
		1.47	1.65	1.61	4.87	6.43
		✓	✓	✓	✓	✗
Ratio of total outstanding debt to GSDP (in *per cent*)	Projections (below): 2016-17 - 46.93 *per cent* 2017-18 - 40.87 *per cent* 2018-19 - 34.19 *per cent* 2019-20 - 32.66 *per cent* 2020-21 - 27.85 *per cent*	39.12	37.65	33.44	34.51	33.98
		✓	✓	✓	✗	✗

State Government was unable to maintain Revenue Surplus during the year, for the first time since 2014-15. During 2020-21 Revenue Deficit stood at ₹ 774.13 crore. Fiscal Deficit-GSDP ratio and Debt-GSDP ratio as targeted in the MTFPS were also not met. Fiscal Deficit at 6.43 *per cent* of GSDP was marginally above the target (6.40 *per cent*) set under MFRBM Act, 2020. With regard to Debt-GSDP ratio, although the State Government was unable to meet the targeted ratio of 27.85 *per cent*, it decreased to 33.98 *per cent* from the previous year's ratio of 34.51 *per cent*.

[2] ✓ denotes targets achieved and ✗ denotes targets not achieved
[3] Targets set as per latest amendment (September 2020) of the MZFRBM Act
[4] Targets set as per latest amendment (September 2020) of the MZFRBM Act

Similarly, the Medium Term Fiscal Plan (MTFP) has set forth a five-year rolling target for the prescribed fiscal indicators. **Table 1.6** indicates the variation between projections made for 2020-21 and actual achievement.

Table 1.6 : Actuals *vis-à-vis* projections in MTFP for 2020-21

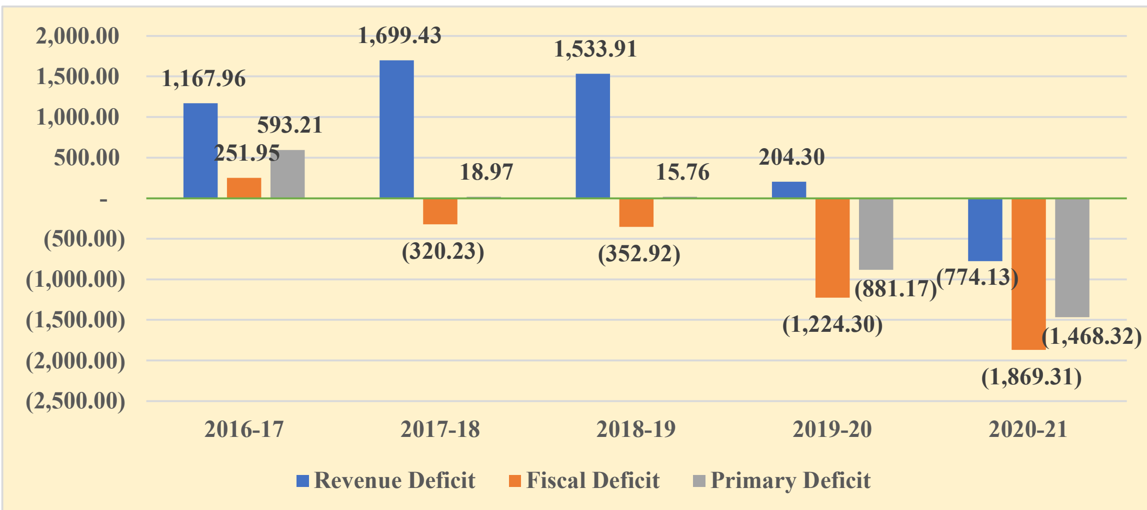
(₹ in crore)

Sl. No.	Fiscal Variables	Projection as per MTFP	Actuals (2020-21)	Variation (in *per cent*)
1	Own Tax Revenue	661.69	647.56	-2.14
2	Non-Tax Revenue	583.07	561.76	-3.65
3	Share of Central Taxes	3,967.96	3,010.55	-24.13
4	Grants-in-aid from GoI	4,572.24	3,520.80	-23.00
5	Revenue Receipts (1+2+3+4)	9,784.96	7,740.67	-20.89
6	Revenue Expenditure	9,021.85	8,514.80	-5.62
7	Revenue Surplus (+)/Revenue Deficit (-)(5-6)	763.11	-774.13	-201.56
8	Fiscal Deficit	518.59	1,869.31	259.70
9	Debt-GSDP ratio (*per cent*)	27.85	33.98	22.01
10	GSDP growth rate at current prices (*per cent*)	17.61	15.62	-11.30

As can be seen from the table above, the projections made in MTFP relating to key fiscal variables showed significant variation from the projections made for 2020-21.

The trend of deficit parameters over the five-year period from 2016-17 to 2020-21 is depicted in **Chart 1.4**.

Chart 1.4 : Trends in deficit parameters

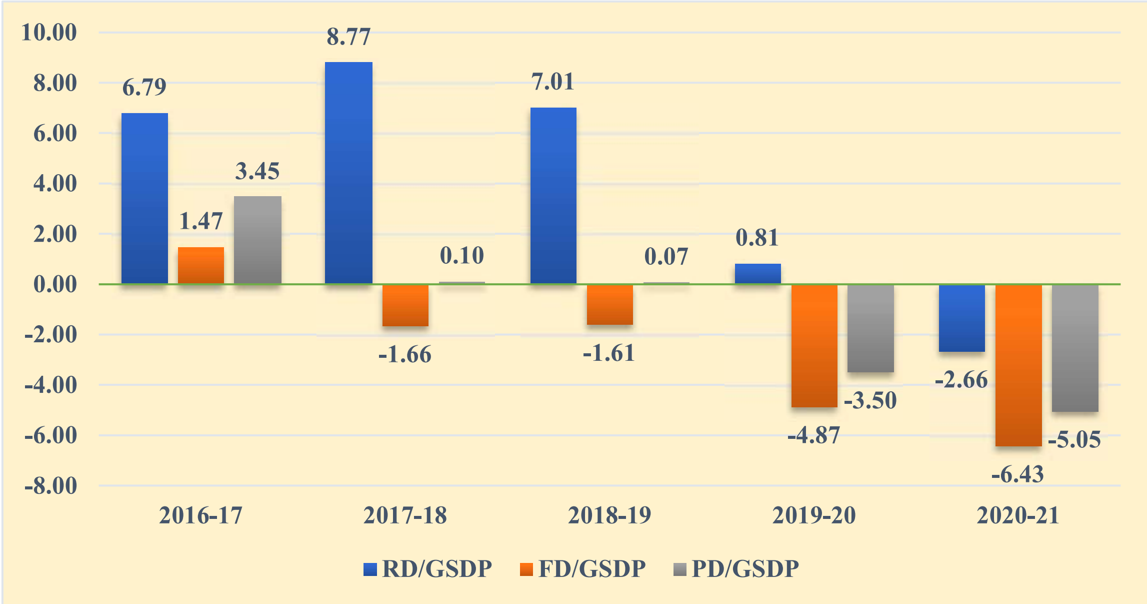


Source: Finance Accounts

The XV FC in its Report for the year 2020-21 had projected a Revenue Deficit (RD) of ₹ 1,422 crore for the State of Mizoram, however, Revenue Deficit for the State stood at ₹ 774.13 crore only. Fiscal Deficit (FD) stood at ₹ 1,869.31 crore during 2020-21.

Chart 1.5 depicts the trends in surplus/deficit relative to GSDP over the five-year period 2016-17 to 2020-21.

Chart 1.5 : Trends in Surplus/Deficit relative to GSDP

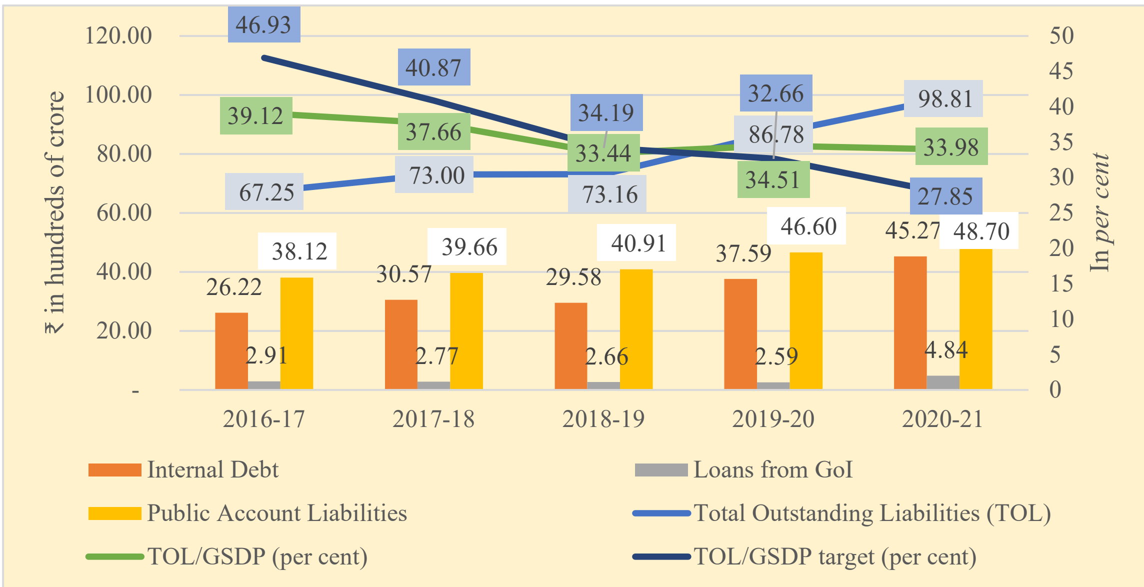


Source: Finance Accounts

Analysis of ratio of deficit relative to GSDP for the year revealed that these deficits occurred mainly as a result of receipts being less than the expenditure incurred by the State during the year.

Total outstanding liabilities (TOL) for the year stood at ₹ 9,881.09 crore while the percentage of TOL to GSDP at 33.98 *per cent* failed to meet the target set under the MTFP. **Chart 1.6** depicts the trends in fiscal liabilities relative to GSDP.

Chart 1.6 : Trends in Fiscal Liabilities and GSDP



Source: Finance Accounts

Components of fiscal liabilities exhibited upward movement for the current year with increases in Internal Debt (₹ 768.17 crore), Loans from GoI (₹ 225.25 crore) and Public Account Liabilities (₹ 209.40 crore).

1.6 Deficits and Total Debt after examination in audit

In order to present a better picture of State Finances, there is a tendency to classify revenue expenditure as capital expenditure and to conduct off-budget fiscal operations.

1.6.1 Post audit - Deficits

Misclassification of revenue expenditure as capital and off budget fiscal operations impact the deficit figures. Besides, deferment of clear cut liabilities, not depositing cess/royalty to Consolidated Fund, short contribution to New Pension Scheme, sinking and redemption funds, *etc.* also impacts the revenue and fiscal deficit figures. In order to arrive at actual deficit figures, the impact of such irregularities needs to be reversed.

The impact on Revenue Deficit and Fiscal Deficit of the State Government as per the findings of audit is given in the following table:

Table 1.7 : Impact of Misclassification and Deferment of Expenditure on Revenue Deficit and Fiscal Deficit

(₹ in crore)

Particulars	Impact on Revenue Deficit		Impact on Fiscal Deficit	
	Understatement	Overstatement	Understatement	Overstatement
Non-payment of interest State Disaster Response Fund	0.36	-	0.36	-
Non-adjustment of interest on balances in State Compensatory Afforestation Fund	7.24	-	7.24	-
Non-payment of interest Miscellaneous Deposits	0.13	-	0.13	-
State Disaster Response Fund (Non-transfer of State Share)	1.72	-	1.72	-
Short contribution to Consolidated Sinking Fund	6.39	-	6.39	-
Net Impact	**15.84**	-	**15.84**	-

Source: Finance Accounts and Audit Analysis

It may be seen from the preceding table that the State Government understated both Revenue Deficit and Fiscal Deficit by ₹ 15.84 crore through Non-payment of interest on the balances under State Disaster Response Fund (₹ 0.36 crore), Non-adjustment of interest on balances in State Compensatory Afforestation Fund (₹ 7.24 crore), Non-payment of interest Miscellaneous Deposits (₹ 0.13 crore), State Disaster Response Fund (Non-transfer of State Share) (₹ 1.72 crore) and Short contribution under Consolidated Sinking Fund (₹ 6.39 crore).

1.7 Conclusion

The growth rate of GSDP of the State at current prices, during 2016-21 ranged between 12.76 *per cent* (2017-18) to 15.62 *per cent* (2020-21). During 2020-21, the GSDP at current price was ₹ 29,076 crore, up from ₹ 25,149 crore in 2019-20, representing an increase of 15.62 *per cent* which was much higher than the growth rate of the country's GDP which was (-)2.97 *per cent*. During the five-year period from 2016-17 to 2020-21, there has been a significant decrease in the growth rate of the Primary sector in GSDP, declining from 18.16 *per cent* in 2016-17 to 11.15 *per cent* in 2020-21 while the growth in the Secondary sector has remained more or less steady. The Tertiary sector continued to be the largest contributor to the GSDP.

State Government was unable to maintain Revenue Surplus during the year for the first time since 2014-15. Fiscal Deficit-GSDP ratio and Debt-GSDP ratio as targeted in the MTFPS were also not met. During 2020-21 Revenue Deficit stood at ₹ 774.13 crore. At the same time, Fiscal Deficit at 6.43 *per cent* of GSDP could not be kept below the targeted 6.40 *per cent*. Although the State Government was unable to meet the targeted ratio of Debt to GSDP, it declined to 33.98 *per cent* from the previous year's ratio of 34.51 *per cent*.

The XV FC in its report for the year 2020-21 had projected a Revenue Deficit of ₹ 1,422 crore for the State of Mizoram. However, Revenue Deficit for the State stood at ₹ 774.13 crore only. Fiscal Deficit stood at ₹ 1,869.31 crore during 2020-21. After successfully containing the Fiscal Deficit within the targets during 2015-19, the State's Fiscal Deficit was 6.43 *per cent* of GSDP during 2020-21 as against the target of 6.40 *per cent*.

Components of fiscal liabilities exhibited upward movement for the current year with increases in Internal Debt (₹ 768.17 crore), Public Account Liabilities (₹ 209.40 crore) and Loans from GoI (₹ 225.25 crore). As a result, total outstanding liabilities (TOL) for the year stood at ₹ 9,881.09 crore which was 33.98 *per cent* of GSDP and thus, failed to meet the target of 27.85 *per cent* set under the MTFP.

Both Revenue Deficit and Fiscal Deficit of the State was understated by ₹ 15.84 crore due to non-provision of interests and non-contribution to designated Funds.

1.8 Recommendations

- *The Government may adhere to the targets of MFRBM Act set for Fiscal Deficit.*
- *The Government needs to make more efforts to increase its Tax and non-tax revenues to make up for the Revenue Deficit in the State.*