

CHAPTER-I

Overview of State Finances

Chapter I: Overview of State Finances

1.1 Profile of the State

This chapter provides a brief economic profile of the State and describes the basis of and approach to the Report. An overview of the structure of Government Accounts and the budgetary processes followed is provided in addition to an analysis of the key macro-economic indices and the State's fiscal position, including the deficits/surpluses.

• Social Indicators

Arunachal Pradesh is a North-Eastern and Himalayan (NE&H) State. Area-wise, it is the largest State in the North-Eastern Region (NER) with a geographical area of 83,743 square kilometres (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 the States of Assam and Nagaland. According to the National Commission on Population, Ministry of Health and Family Welfare, population of the State for the year 2022-23 stood at 15,62,000¹ which is 0.11 *per cent* of the entire population of the country. During 2022-23, the State had the lowest population density in the country at 18 persons per sq. km. as against the national average of 422 persons per sq. km. The State's decadal growth rate (from 2012-13 to 2022-23) of population was 10.47 *per cent*, which is lower than the growth rates of NE&H States *viz.* Assam (11.63 *per cent*), Uttarakhand (12.39 *per cent*) as well as average growth rate of all India (11.68 *per cent*) and higher than the Other NE&H States such as Himachal Pradesh (6.96 *per cent*) Manipur (10.45 *per cent*), Meghalaya (10.46 *per cent*), Mizoram (10.44 *per cent*), Nagaland (10.44 *per cent*), Sikkim (10.42 *per cent*) and Jammu and Kashmir and UT Ladakh (8.63 *per cent*). According to the Census 2011, the literacy rate of Arunachal Pradesh was 65.40 *per cent* which was less than the all-India literacy rate (73 *per cent*) as well as the literacy rate in NE&H States. The general and financial data relating to Arunachal Pradesh *vis-à-vis* NE&H States are given in **Appendix 1.1 (Part C)**.

1.1.1 Gross State Domestic Product of the State

The 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. The GSDP is the most important indicator for measuring the economic growth of a State. Gross State Value Added (GSVA) is the value of output produced without including net taxes. GVA is being used for economic analysis by GoI and International organisations like IMF and World Bank *etc.*

¹ Male:8,03,000 and Female:7,59,000

This GSDP estimate, when analysed over a period, reveals the direction, extent, and speed of change in the level of economic development in a State. Trends in annual growth of the State of Arunachal Pradesh's GSDP and Gross State Value Added (GSVA) *vis-à-vis* Gross Domestic Product (GDP) and Gross Value Added (GVA) of the country are given in **Table 1.1**.

Table 1.1: Trends in the growth rate of GSDP *vis-a-vis* GDP

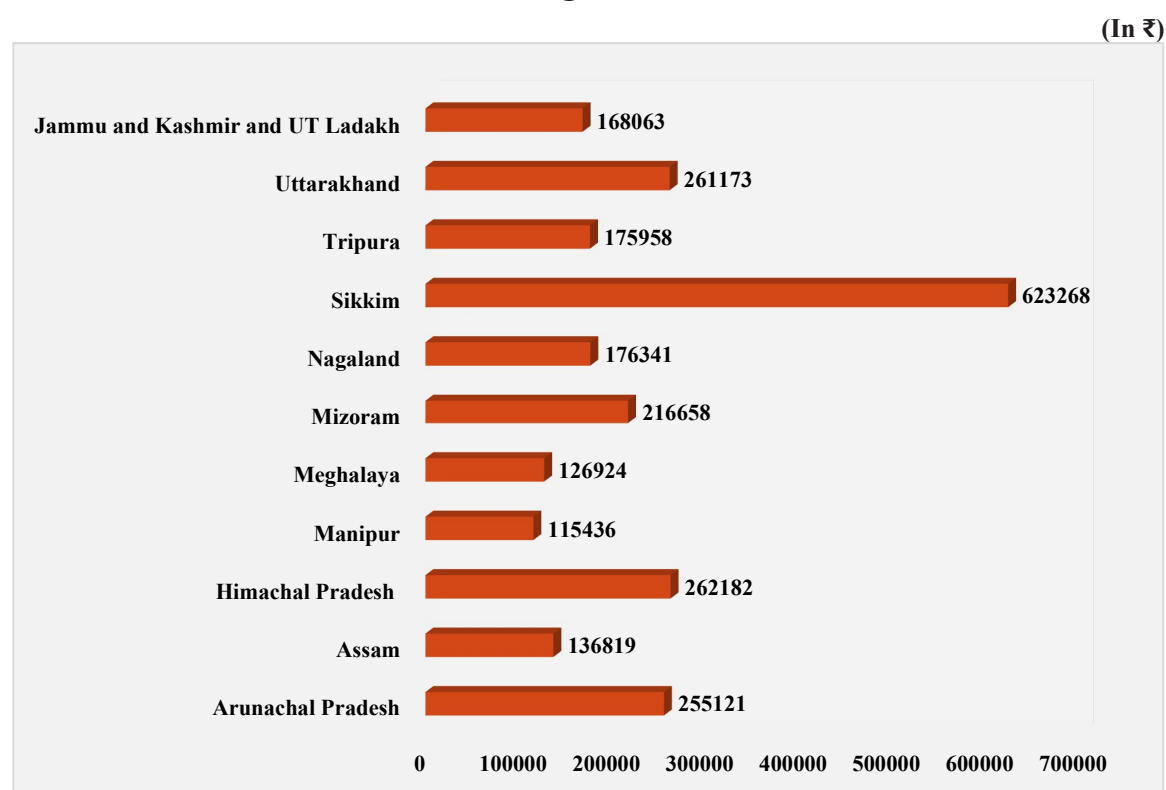
Particulars	2018-19	2019-20	2020-21	2021-22	2022-23
GDP at the current price (₹ in crore)	1,88,99,668.44	2,01,03,592.86 (Third RE)	1,98,29,927.05 (Second RE)	2,34,71,011.74 (First RE)	2,72,40,712.17 (PE)
GVA at the current price (₹ in crore)	1,71,75,128.30	1,83,81,117.32	1,81,88,780.28	2,14,38,883.26	2,47,42,870.77
The growth rate of GDP over the previous year (in per cent)	10.59	6.37	(-)1.36	18.36	16.06
Growth rate of GVA over the previous year (in per cent)	10.77	7.02	(-)1.05	17.87	15.41
Per Capita GDP (in ₹)	1,42,424.00	1,49,915.00	1,46,301.00	1,71,498.00	1,96,983.00
GSDP at the current price (₹ in crore)	25,334.86 (RE)	30,025.23 (RE)	30,945.33 (PE)	35,483.76 (QE)	39,671.24 (AE)
GSVA at current price (₹ in crore)	23,976.52	28,331.21	29,565.22	33,621.67	37,556.67
Growth rate of GSDP over the previous year (in per cent)	12.73	18.51	3.06	14.67	11.80
Growth rate of GSVA over the previous year (in per cent)	11.12	18.16	4.36	13.72	11.70
Per Capita GSDP (in ₹)	1,69,351.00	1,98,711.00	2,02,787.00	2,30,414.00	2,55,121.00

Sources: GDP/GVA- GoI's Ministry of Statistics and Programme and Implementation (as on 31 August 2023) and Directorate of Economics and Statistics, Government of Arunachal Pradesh (GoAP) (as on 31 March 2023)
RE - Revised Estimates; PE - Provisional Estimates; AE-Advanced Estimates and QE-Quick Estimates

It can be seen from the **Table 1.1** above, that the growth rate of GSDP at current price during the period 2018-19 to 2022-23 lacked a well- defined upward trend, with the highest growth rate of 18.51 *per cent* in 2019-2020 and the lowest growth rate of 3.06 *per cent* in 2020-21. The growth rate of GSDP at the current price during 2022-23 was 11.80 *per cent* which is 2.87 points lower than the previous year's growth rate of 14.67 *per cent*. The decrease in GSDP during 2022-23 over the previous year can be attributed to the decrease in Industry and Agriculture sectors.

It is also seen that the GDP growth rate (at current prices) in 2022-23 was 16.06 per cent while the growth rate of the GSDP during the same period was 11.80 per cent. The annual growth rate of GSDP during 2022-23 was 11.80 per cent while the XV FC projected it to be 11.50 per cent. In the Medium-Term Fiscal Plan (MTFP) for the year 2022-23, the Gross State Domestic Product (GSDP) was projected to be ₹29,372.00 crore when the actual GSDP for that year was ₹39,671.24 crore. Per Capita GSDP of Arunachal Pradesh and Other NE&H States is shown in Chart 1.1.

Chart 1.1: Details of per capita GSDP of Arunachal Pradesh and NE&H States during 2022-23



Source: Compilation of SFAR, 2022-23, issued by Economics division of O/o the CAG of India

During the current year, per capita GSDP of Arunachal Pradesh (₹2,55,121.00) was higher than the per capita GDP (₹1,96,983.00). Decadal Compound Annual Growth Rate (CAGR) of GSDP and per capita GSDP of Arunachal Pradesh and Other NE&H States is given in Table 1.2.

Table 1.2: Details of Decadal CAGR of GSDP and per capita GSDP of Arunachal Pradesh and Other NE&H States

Sl. No.	Name of NE&H States	CAGR of GSDP in per cent (2022-23 over 2013-14)	CAGR of per capita GSDP in per cent (2022-23 over 2013-14)
1.	Arunachal Pradesh	11.76	10.65
2.	Assam	12.01	10.63
3.	Himachal Pradesh	8.37	7.66
4.	Manipur	9.64	8.91

Sl. No.	Name of NE&H States	CAGR of GSDP in per cent (2022-23 over 2013-14)	CAGR of per capita GSDP in per cent (2022-23 over 2013-14)
5.	Meghalaya	7.15	6.31
6.	Mizoram	11.18	10.41
7.	Nagaland	10.01	8.93
8.	Sikkim	13.33	12.21
9.	Tripura	12.29	11.18
10.	Uttarakhand	8.18	6.93
11.	Jammu and Kashmir and UT Ladakh	10.13	9.50

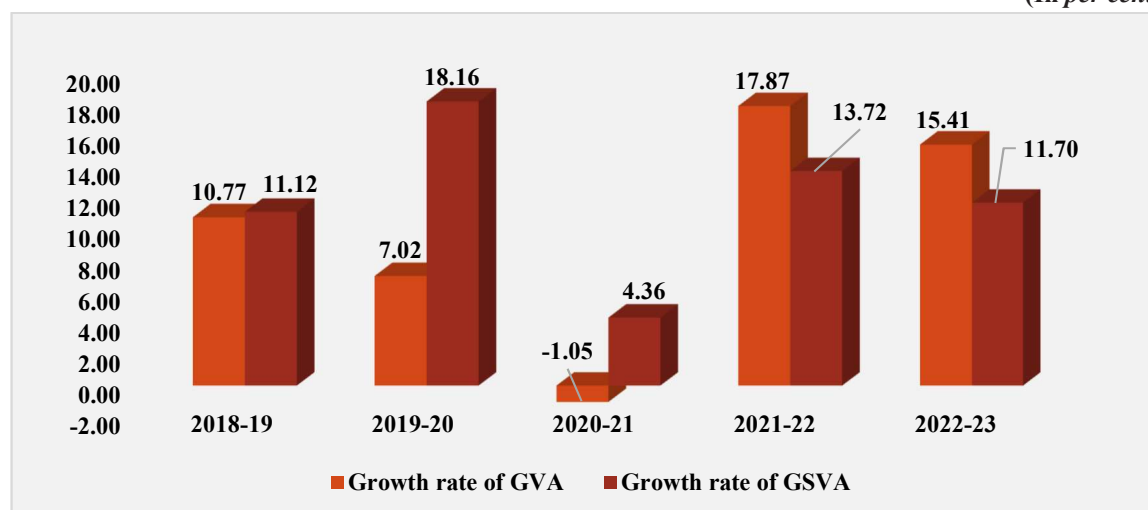
Source: Compilation of SFAR, 2022-23, issued by Economics division of CAG

Gross Value Added (GVA) is being used for economic analysis by GoI and international organisations like IMF and World Bank as GVA is considered a better indicator of economic growth compared to GDP because it ignores the impact of taxes and subsidies. While GDP is computed as the sum of total of the various expenditures incurred in the economy including private consumption spending, government consumption spending and gross fixed capital formation or investment spending, it reflects essentially on the demand conditions in the economy. Both measures have difference in treatment of net taxes, and because of the inclusion of taxes in GDP it may differ from the real output situation.

From a policymaker's perspective it is vital to have a comparison of the GVA and GSVA data for better analysis and for making better policy interventions. Trends of GVA and GSVA for the period from 2018-19 to 2022-23 is indicated in the **Chart 1.2**.

Chart 1.2: Trends of GVA and GSVA for the period from 2018-19 to 2022-23

(In per cent)



Source: GDP/ GVA- GoI's Ministry of Statistics and Programme Implementation (as of 31 August 2023) and Directorate of Economics and Statistics, Government of Arunachal Pradesh (GoAP) (as on 31 March 2023)

As can be seen from the above chart, the growth rate of the GSVA follows a fluctuating trend for the five-year period (2018-23). During the period from 2018-19 to 2020-21, the growth rate of GSVA was higher than that of GVA while the growth rate during the period 2021-22 to 2022-23 was lower than the growth rate of the GVA.

The GSDP is mainly classified under three broad sectors, *viz.* Primary, Secondary, and Tertiary. It is compiled activity-wise as per the methodology prescribed by the Central Statistics Office (CSO), Government of India (GoI), and furnished by the Ministry of Statistics and Programme Implementation (MoSPI). Moreover, GSDP is the sum of value added (calculated without duplication) by different economic sectors (Agriculture, Industry, and Services- which form the three broad sectors) within the boundaries of the State during a year. It is one of the most important measures of growth of a State’s economy. The sectoral contribution to the GSVA and GVA during 2022-23 is given in **Charts 1.3** and **1.4** respectively for comparison.

Chart 1.3: Sector-wise GSVA for the year 2022-23 (In per cent)

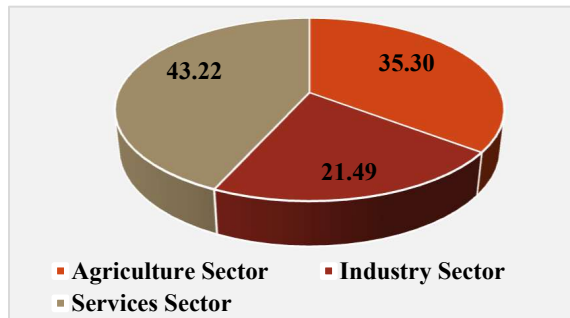
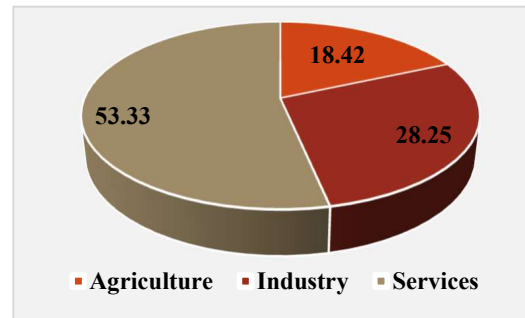


Chart 1.4: Sector-wise GVA for 2022-23 (In per cent)



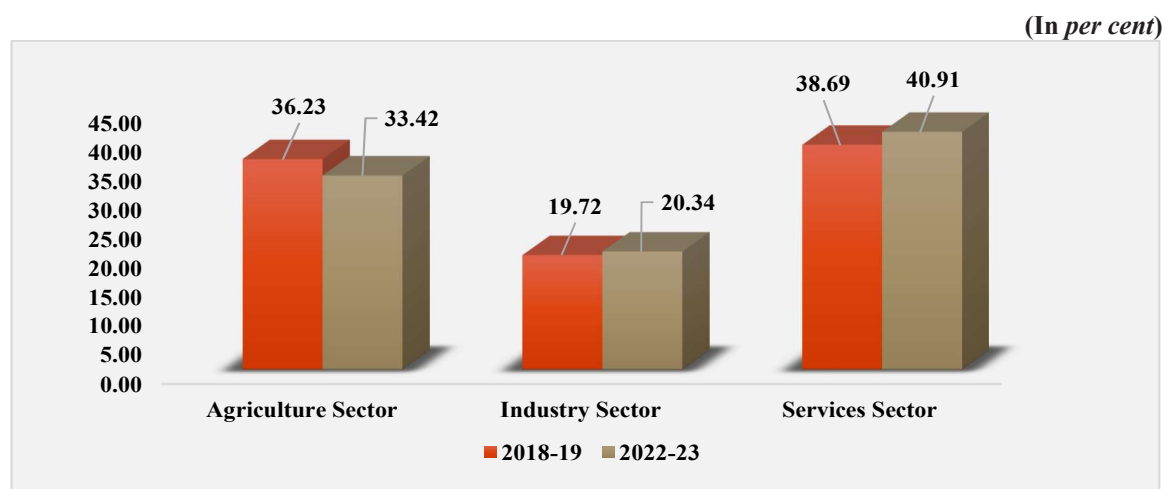
Source: GDP/ GVA- GoI’s ministry of Statistics and Programme Implementation (as on 31 August 2023) and Directorate of Economics and Statistics, Government of Arunachal Pradesh (GoAP) as on 31 March 2023

It can be seen from the above **Charts 1.3 and 1.4** that the *percentage* contribution of the agriculture sector to the GSVA is higher than the *percentage* contribution of the agriculture sector to the GVA. Consequently, the *percentage* contributions of the Industries and Services sectors to the GSVA are less.

During 2022-23, under the Agriculture sector, the major contribution was from ‘Crops (Agriculture and Horticulture)’ and ‘Forestry and Logging’ which contributed 06 and 12 *per cent* of GSDP respectively. Under the Industry sector, the major share was from ‘Construction’, and ‘Electricity, gas, water supply and Other utility services’ which contributed 07 and 11 *per cent* of GSDP respectively. Under the Service sector, the major share was from ‘Public Administration’ and ‘Other services’ which formed 17 and 15 *per cent* of GSDP respectively.

Analysis of changes in sectoral contribution to GSDP is also important to understand the changing structure of the economy of the State. The changes in sectoral contribution to GSDP for the period 2018-19 to 2022-23 is shown in **Chart 1.5**.

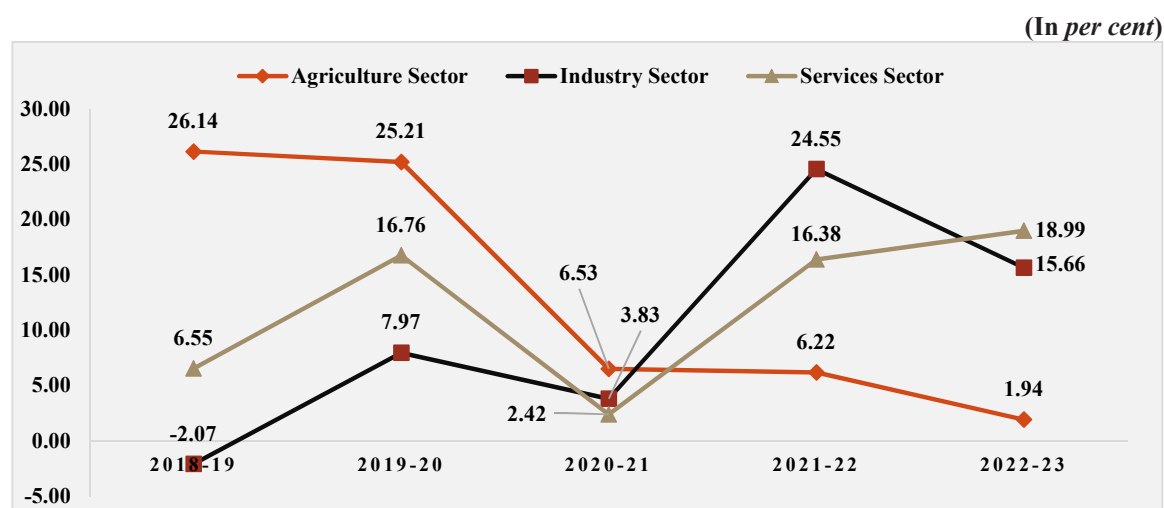
Chart 1.5: Change in the sectoral contribution of GSDP



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

There was a decrease in the relative share of ‘Agriculture to GSDP’ during the period from 2018-19 to 2022-23. It reduced from 36.23 per cent in 2018-19 to 33.42 per cent in 2022-23. Consequently, there was an increase in the relative share of Industry and Services sector to the GSDP as it increased slightly from 19.72 per cent in 2018-19 to 20.34 per cent in 2022-23. The share of Services sectors also increased by 2.22 points from 38.69 per cent in 2018-19 to 40.91 per cent in 2022-23. During 2022-23, the Service and Agriculture sectors continued to be the most important for the socio-economic progress of Arunachal Pradesh as they contributed significantly to the growth of GSDP. The Individual Sectoral growths in GSDP are shown in **Chart 1.6**.

Chart 1.6: Sectoral growth of GSDP during 2018-19 to 2022-23.



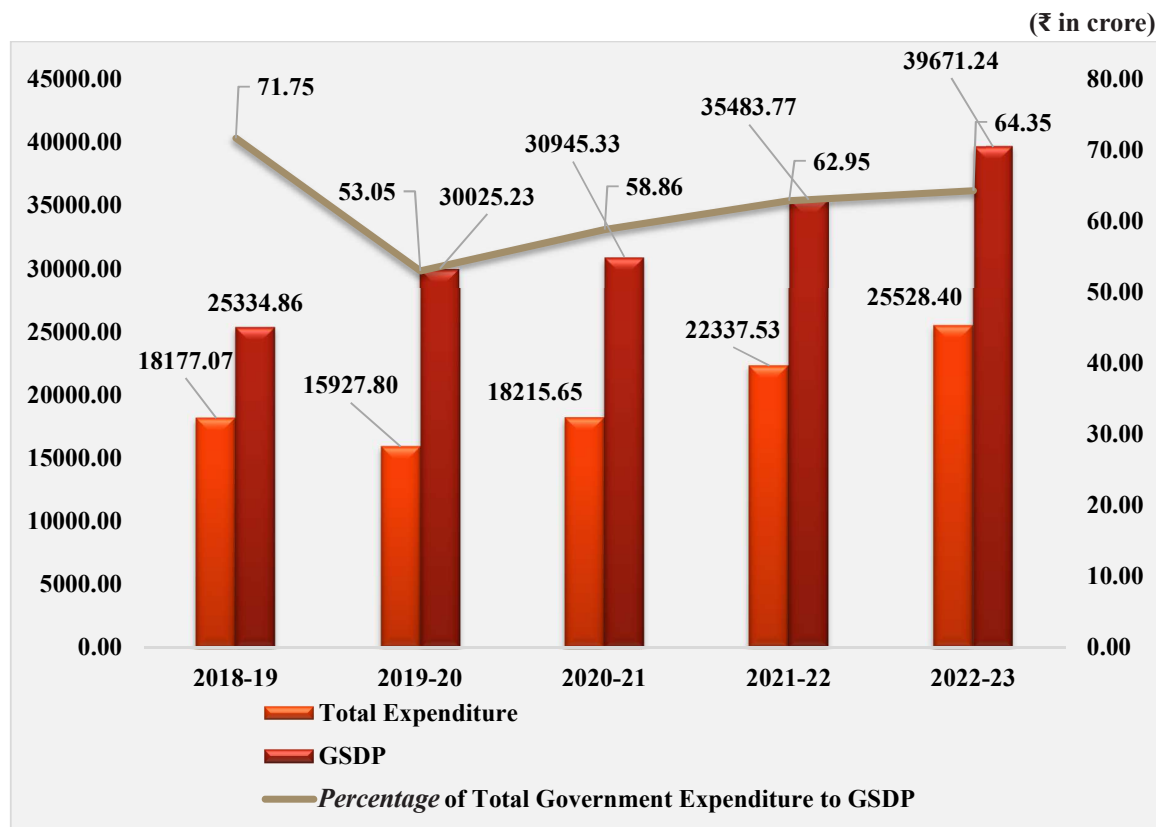
Source: Directorate of Economics and Statistics, Government of Arunachal Pradesh (GoAP)

It can be seen from the above Chart that the growth rate of the Agriculture sector had a decreasing trend from 26.14 per cent in 2018-19 to 1.94 per cent in 2022-23. During 2022-23, there was a significant decrease in growth rate over the previous year due to decrease in growth rate of all sub-components of the sector. The growth rate of the Industry sector showed an increasing trend from (-)2.07 per cent in 2018-19 to

15.66 per cent in 2022-23. During 2022-23, there was a significant decrease in growth rate of Industry sector over the previous year due to decrease in growth of Electricity, Gas, Water Supply and Other Utility Services and Construction. Similarly, Services sector showed an increasing trend from 6.55 per cent in 2018-19 to 18.99 per cent in 2020-21. During 2022-23, Services sector registered a growth of 18.99 per cent in 2022-23 from 16.38 per cent in 2021-22 due to significant increase in year over year changes in Public Administration.

The percentage of total State Government expenditure to GSDP shows an increasing trend during the period from 2019-20 to 2022-23 after a sharp decline in 2018-19 to 2019-20. It steadily increased from 53.05 per cent in 2019-20 to 64.35 per cent in 2022-23. The trend of the percentage of Government Expenditure to GSDP for the period 2018-19 to 2022-23 is shown in Chart 1.7.

Chart 1.7: Trends of Government Expenditure to GSDP for the period 2018-19 to 2022-23



Source: Directorate of Economics and Statistics, Government of Arunachal Pradesh (GoAP) and Finance Accounts of the respective year.

The high percentage share of Government expenditure in GSDP indicates that the State is still heavily dependent on Government spending. It indicates that there is unrealised potential for growth in the State by means other than Government spending. The high dependence of the State on Government expenditure for its growth exposes it to vulnerabilities and hence this dependence must be reduced by necessary policy initiatives.

1.2 Basis and Approach to State Finances Audit Report

1.2.1 Preparation of Accounts of the State Government

Annual Accounts (Finance and Appropriation Accounts) are prepared by the Accounts Wing of the Office of Principal Accountant General, Arunachal Pradesh 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 in addition to the advices received from the Reserve Bank of India. The Treasuries, Offices and/ or Departments functioning under the control of Government of Arunachal Pradesh are primarily responsible for the preparation and correctness of the initial and subsidiary accounts as well as ensuring the regularity of transactions in accordance with the applicable laws, standards, rules and regulations relating to such accounts and transactions.

1.2.2 Audit of Accounts and preparation of State Finances Audit Report

Audit of the Annual Accounts of Arunachal Pradesh is conducted independently by the Audit Wing of the Office of the Principal Accountant General, Arunachal Pradesh in accordance with the requirements of Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, for expression of an opinion on these Accounts based on the results of such audit. An audit includes examination, on test basis, of evidence relevant to the amounts and disclosures in financial statements. The reports of the Comptroller and Auditor General of India relating to the Accounts of the State are to be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State under Article 151(2) of the Constitution of India.

1.2.3 Sources of the preparation of State Finances Audit Report

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 money spend and its compliance with the relevant rules and prescribed procedures.
- GSDP data and other State related statistics.
- Arunachal Pradesh State Financial Responsibility and Budget Management (APFRBM) Act.
- Recommendations of the Fifteenth Finance Commission (XV FC).
- Results of audit carried out by the Audit Wing of Office of Principal Accountant General of Arunachal Pradesh.
- Other data (accounting as well as MIS) with Departmental Authorities and Treasuries.
- Best practices and Guidelines of the Government of India (GoI), and

- Various audit reports of the CAG of India.

A meeting was held with State Finance Department on 05 October 2023 wherein the issues pointed out in SFAR were discussed. Replies of the Government, wherever relevant, have been incorporated in this Report at appropriate places.

The revised/ updated State Finances Audit Report for the year ended March 2023 was issued again to the Finance Department on 28 December 2023 for their comments. The replies were received from the Principal Secretary, Finance (GoAP) on 10 January 2024. The replies have been incorporated in the appropriate places of this Report.

1.3 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 (W and MA) 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 the law and for the purposes and in the manner provided by the Constitution of India. Certain categories of expenditures (*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 State 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 advance disbursements to be made for meeting unforeseen expenditures pending authorization of such expenditures 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 money 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 repayable like Small Savings and Provident Funds, Deposits (bearing interest or not bearing interest), Advances, Reserve Funds (bearing interest or 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 State Legislature.

Budget Document

In terms of Article 202 of the Constitution of India, a statement of the estimated receipts and expenditures of the State for the year in the form of an Annual Financial Statement is presented to the State Legislature. 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 (Own tax revenue *plus* share of Union Taxes/ Duties), non-tax revenue and grants from Government of India.

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 *etc.*

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 the Government that is both functional and economic.

	Attribute of transaction	Classification
Standardised in LMMH ² by CGA ³	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 appraises us 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 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,

² List of Major and Minor Heads

³ Controller General of Accounts

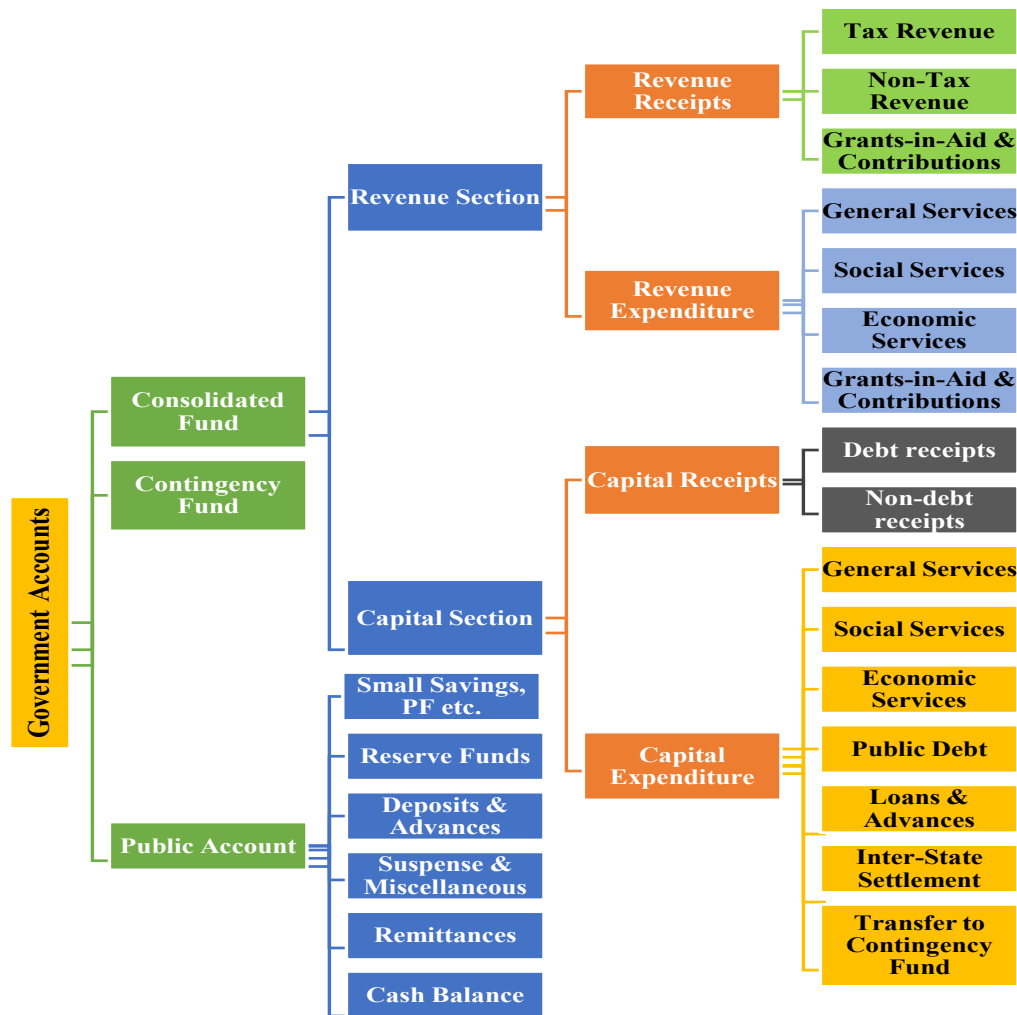
generally “salary” object head is revenue expenditure, “construction” object head is capital expenditure. Object head is the primary unit of appropriation in the budget documents.

Public Debt and Public Liability: In this Report, ‘Public Debt’ has been taken to comprise market borrowings, institutional loans, special securities issued to National Small Savings Fund (NSSF), loan given by Central Government *etc.* for this purpose, the major heads 6003 and 6004- Public Debt have been taken into consideration.

Further, the transactions relating to ‘Small Savings, Provident Fund, *etc.*’, ‘Reserve Funds’ and ‘Deposit and Advances’ under Public Accounts are such that the Government incurs a liability to repay the moneys received or has a claim to recover the amounts paid. The transactions relating to ‘Remittances’ and ‘Suspense’ under Public Account, including merely adjusting heads such as transactions are remittances of cash between treasuries and currency chests and transfer between different accounting circles.

In this report, ‘Public Liability’ has been taken to include the transactions under major heads 8001 to 8554 relating to ‘Small Savings, Provident Fund, *etc.*’ ‘Reserve Funds’ and Deposit and Advances’ along with the transactions under major heads 6003 and 6004.

1.4 Structure of Government Accounts



1.5 Budgetary Processes

In terms of Article 202 of the Constitution of India, the Governor of State causes to be laid before the Arunachal Pradesh Legislature a statement of the estimated receipts and expenditures of the State for the year 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 79 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 Budgets which are in the nature of sub-budgets like Gender Budget and Outcome budget.

Arunachal Pradesh Government did not have a Budget Manual to guide the State Government functionaries in preparing their budgetary estimates and to monitor the expenditure activities. In the absence of any Budget Manual, the Budget preparation exercise is done based on the General Financial Rules and the Budget circulars issued by the State government from time to time. Results of audit scrutiny of budget 2022-23 and implementation of other budgetary initiatives of the State Government are detailed in **Chapter III** of this Report.

1.6 Snapshot of the Finances

Details of actual financial results for 2022-23 *vis-à-vis* Budget Estimates (BEs) for the same year and *vis-à-vis* actuals for the previous year, *i.e.*, 2021-22 are shown in **Table 1.3**. Time series data of the Finances of Government of Arunachal Pradesh for the year 2018-19 to 2022-23 are given in **Appendix 2.2**.

Table 1.3: Financial results *vis-à-vis* BEs

(₹ in crore)

Sl. No.	Components	Actuals 2021-22	Budgets Estimate 2022-23	Actuals 2022-23	Percentage of Actuals of 2022-23 to GSDP
1.	Tax Revenue (i+ii) (a)	16,283.69	16,438.54	18,926.52	47.71
	<i>i Own Tax Revenue</i>	1,639.79	1,267.53	2,237.35	5.64
	<i>ii Share of Union taxes/Duties</i>	14,643.90	15,171.01	16,689.17	42.07
2.	Non-Tax Revenue	774.67	935	1,017.87	2.57
3.	Grants- in -Aid and contributions	4,173.28	6,865.00	3,843.75	9.69
4.	Revenue Receipts (1+2+3)	21,231.64	24,238.54	23,788.14	59.96
5.	Recoveries of Loans and Advances	6.85	10.00	4.86	0.01
6.	Other Receipts	0.00	0.00	0.00	0.00
7.	Borrowings and Other Liabilities (b)	1,099.04	644.81	1,735.40	4.37
8.	Capital Receipts (5+6+7)	1,105.89	654.81	1,740.26	4.39
9.	Total Receipts (4+8)	22,337.53	24,893.35	25,528.40	64.35

Sl. No.	Components	Actuals 2021-22	Budgets Estimate 2022-23	Actuals 2022-23	Percentage of Actuals of 2022-23 to GSDP
10.	Revenue Expenditure	15,846.64	18,201.55	17,417.67	43.91
11.	Interest Payments	777.62	851.53	834.64	2.10
12.	Capital Expenditure	6,488.33	6,701.15	8,107.36	20.44
13.	Loans and Advances	2.56	5.65	3.37	0.01
14.	Total Expenditure (10+12+13)	22,337.53	24,908.35	25,528.40	64.35
15.	Revenue Surplus (4-10)	5,385.00	6,036.99	6,370.47	16.06
16.	Fiscal Deficit (14-4-5-6)(-)/ Surplus (+)	(-1,099.04)	(-659.81)	(-1,735.40)	4.37
17.	Primary Deficit (16-11)(-)/ Surplus(+)	(-321.42)	(-1,511.34)	(-900.76)	2.27

Source: Finance Accounts of respective years and Annual Financial Statement of GoAP of the respective year

(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.

During 2022-23, BE of the Tax Revenue was ₹16,438.54 crore while the actual receipts were ₹18,926.52 crore, thus, exceeding BE by ₹2,487.98 crore. The actual receipts under Grants in Aid contribution during 2022-23 were ₹3,021.25 crore less than the Budget estimate. The actual Fiscal Deficit was ₹1,735.40 crore and it was higher than the Budget Estimates by 163.02 per cent. A detailed analysis on the finances of the State Government is made in the subsequent Chapter of the report.

1.7 Snapshot of Assets and Liabilities of the Government

Government accounts also 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 of the capital expenditure, the loans and advances given by the State Government and the cash balances as detailed in *Appendix 1.2*.

Table 1.4: Summarised position of Assets and Liabilities

(₹ in crore)

Liabilities			Assets		
	2021-22	2022-23		2021-22	2022-23
Consolidated Fund					
Internal Debt	8,130.52	8,520.84	Gross Capital Outlay	44,410.84	52,518.20
Loans and Advances from GoI	705.30	2,243.43	Loans and Advances	91.56	90.07
Contingency Fund	0.05	0.05			

Liabilities			Assets		
	2021-22	2022-23		2021-22	2022-23
Public Account					
Small Savings, Provident Funds, etc.	2,962.88	3,117.55	Advances	502.51	502.38
Deposits	155.83	161.58	Remittance	(-)119.91	293.96
Reserve Funds	3,811.87	3,867.58	Cash balance (including investment in Earmarked Fund)	4,356.35	4,346.15
Suspense and Miscellaneous	(-)1,274.43	(-)1,280.03			
Surplus in Revenue Account	34,749.33	41,119.76			
Total	49,241.35	57,750.76	Total	49,241.35	57,750.76

Source: Finance Accounts of respective year

1.8 Trends in Key Fiscal Parameters

Deficit financing done judiciously may be viewed as a prudent fiscal management by the Government. Two important pointers to the fiscal health to be seen are, how the deficit is financed and how the resources raised are applied. This Section presents trend, nature, magnitude and manner of financing these deficits and also the assessment of the actual level of revenue and fiscal deficits *vis-à-vis* targets set under APFRBM Act/ Rules for the year 2022-23.

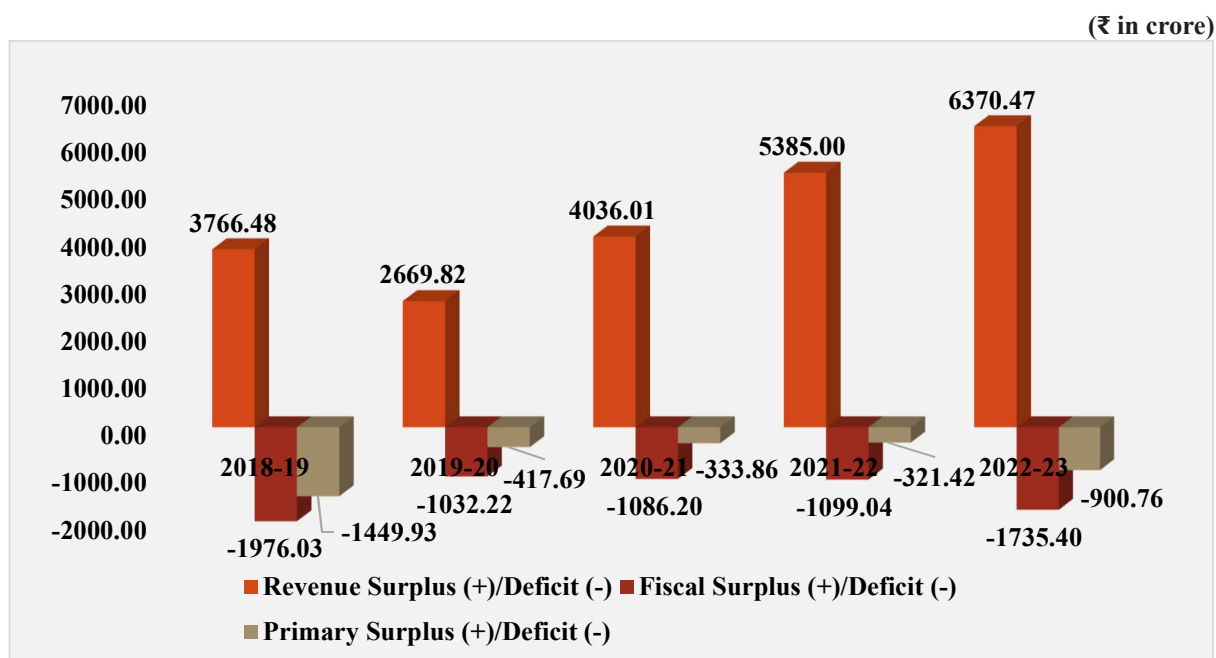
1.8.1 What are Deficit and Surplus?

Revenue Deficit/ Surplus	<i>Refers to the gap between Revenue Expenditure and Revenue Receipts</i>
Fiscal Deficit/ Surplus	<i>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</i>
Primary Deficit/ Surplus	<i>Primary Deficit is measured as Fiscal Deficit less interest payments</i>

1.8.2 Trends of Deficit/ Surplus

The trend of the surplus deficit indicators in the past five years are given in **Chart 1.8**.

Chart 1.8: Trends in Surplus/ Deficit indicators



Source: Finance Accounts of respective year

Chart 1.8 reveals that the State consistently maintained Revenue Surplus during the period from 2018-19 to 2022-23. There was a significant surplus in revenue account in 2022-23 which can be attributed to a high increase in revenue receipts compared to the increase in revenue expenditure. The Revenue Surplus has shown an increasing trend from ₹2,669.82 crore in 2019-20 and reached up to ₹6,370.47 crore in 2022-23. The Revenue Surplus increased by ₹2,603.99 crore from ₹3,766.48 crore in 2018-19 to ₹6,370.47 crore in 2022-23. Revenue Surplus in 2022-23 increased by ₹985.47 crore (18.30 per cent) over the previous year (₹5,385.00 crore). The actual Revenue Surplus ₹6,370.47 crore during the current year was ₹333.48 crore higher than the projected Revenue Surplus of ₹6,036.99 crore during the budget of 2022-23.

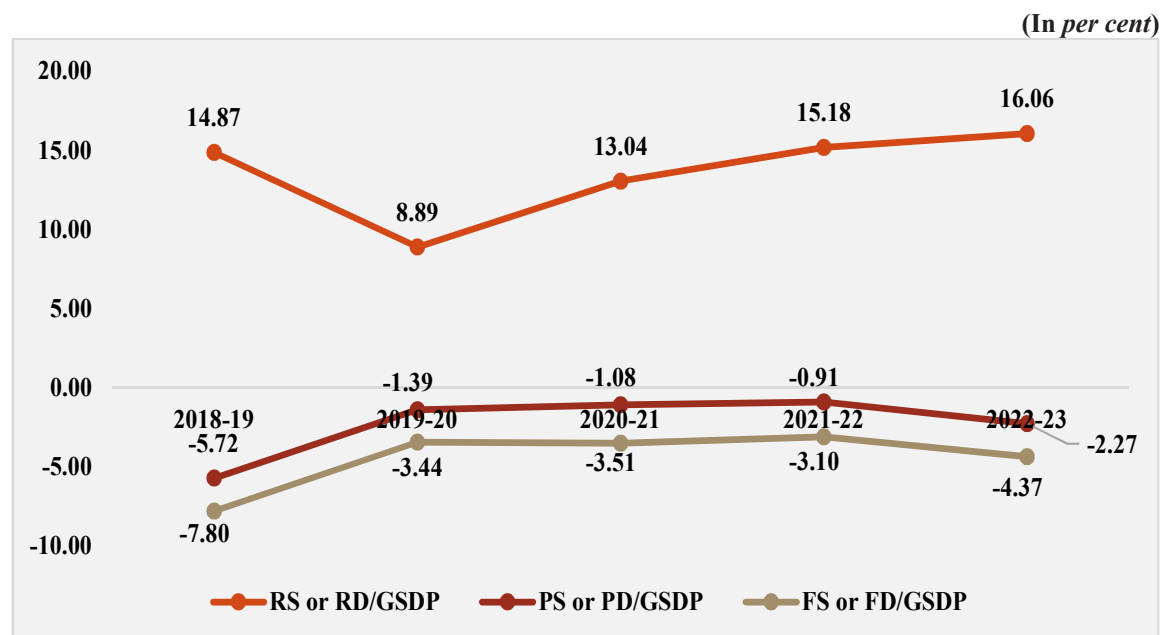
Fiscal Surplus/ Deficit represents difference between non-debt creating revenues and borrowings. State did not achieve Fiscal Surplus during the period 2018-19 to 2022-23. Fiscal Deficit decreased by ₹241.63 crore from ₹1,976.03 crore in 2018-19 to ₹1,735.40 crore in 2022-23. Fiscal deficit reached its peak in 2018-19 at ₹1,976.03 crore. During 2022-23, the Fiscal Deficit increased by ₹636.36 crore over the previous year (₹1,099.04 crore) which was due to an increase in the Total Expenditure over the previous year. Further, the actual Fiscal Deficit ₹1,735.40 crore during the current year was ₹1,090.59 crore higher than the projected Fiscal Deficit of ₹644.81 crore in the Budget Estimates, which is attributed to an increase in the actual Total Expenditure over the projected Total Expenditure in Budget Estimates.

The Primary Deficit which was highest in 2018-19, showed a decreasing trend from ₹1,449.93 crore in 2018-19 to ₹900.86 crore in 2022-23. During 2022-23, the Primary Deficit increased by ₹579.34 crore over the previous year. Primary deficit from 2018-19 to

2022-23 indicates that the interest payments of the State were met from the net borrowings of the State.

The trend of these Surplus and Deficits as a *percentage* of GSDP over the five-year period from 2018-19 to 2022-23 is depicted in **Chart 1.9**.

Chart 1.9: Trends in Deficit/ Surplus relative to GSDP

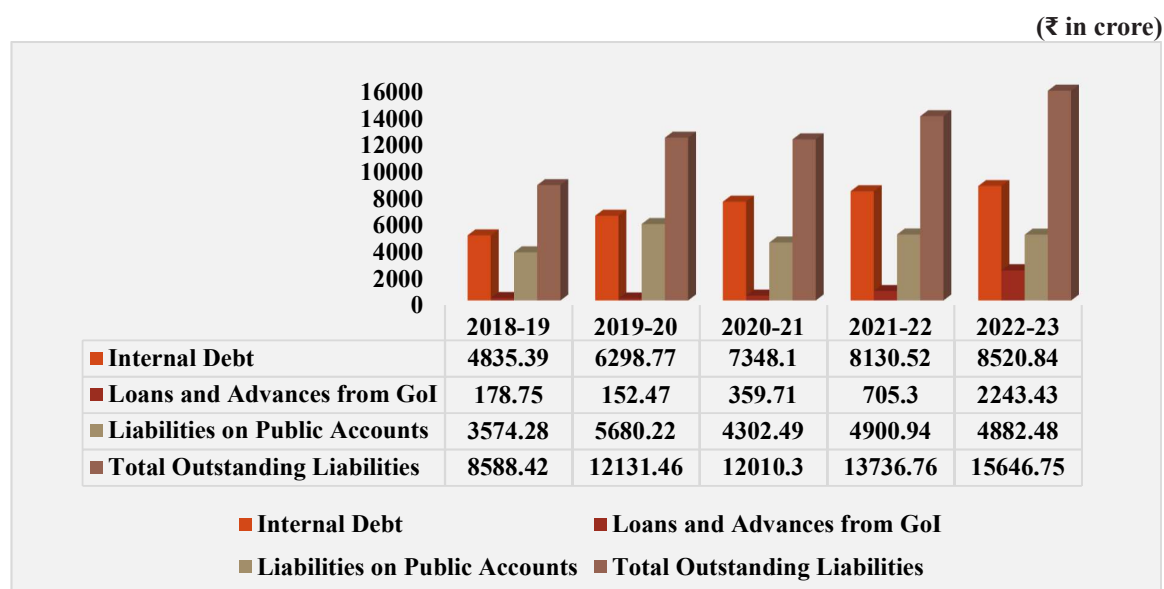


Source: Finance Accounts of respective year

The steady increase in Revenue Surplus as a *percentage* of GSDP shows improvement in the fiscal performance of the State. The ratio of Revenue Surplus to GSDP has shown an increasing trend during the period 2019-20 to 2022-23, while the ratio of Fiscal Deficit to GSDP has shown a fluctuating trend in alternate year. The ratio of Primary Deficit to GSDP showed a decreasing trend from 2018-19 to 2021-22, but it showed a significant increase in 2022-23. During 2022-23, there was an increase in Fiscal Deficit and Primary Deficit despite the increase in the Revenue Surplus. This was due to an increase in the Capital Expenditure and Interest Payments on previous borrowings by the State.

Trend of Fiscal Liabilities during the period 2018-19 to 2022-23 is shown in **Chart 1.10**.

Chart.1.10: Trends of Outstanding Liabilities



Source: Finance Accounts of the respective year

Total Outstanding Liabilities of the State increased by ₹7,058.33 crore (82.18 per cent) from ₹8,588.42 crore in 2018-19 to ₹15,646.75 crore in 2022-23. During the current year, Fiscal Liabilities increased by ₹1,909.99 crore (13.90 per cent) over the previous year (₹13,736.76 crore) and this was mainly due to an increase in the internal Debt by ₹390.32 crore and Loans from GoI by ₹1,538.14 crore which was partially offset by a decrease in the Liabilities on Public Accounts² by ₹18.46 crore.

1.8.3 Post Audit Revenue Surplus and Fiscal Deficit

Excessive focus on the short-term objective of overcoming Fiscal Deficit encourages creative accounting and recourse to one-off deficit-reducing measures. **Table 1.5** assesses effective Surplus/ Deficit after taking into account the short-contribution/ non-contribution to funds and incorrect classifications/ booking by the State Government during 2022-23.

Table 1.5: Actual Revenue Surplus and Fiscal Deficit

(₹ in crore)

Particulars	Impact on Revenue Surplus	Impact on Fiscal Deficit
	Understated (-)/ overstated (+)	Understated (+)/ overstated (-)
Non transfer of labour Cess to Arunachal Pradesh Building and Other Construction Workers Welfare Board	(+)1.05	(+)1.05
Non-discharge of Interest liabilities	(+)61.59	(+)61.59
Short Contribution of Government matching share towards NPS	(+)17.66	(+)17.66
Capital Expenditure booked in Revenue Expenditure	(-)11.73	-

⁴ Components of Liabilities on Public Accounts - Small Savings, Provident Funds *etc.*, Reserve Funds bearing Interest, Reserve Funds not bearing Interest, Deposits bearing Interest, and Deposits not bearing Interest.

Particulars	Impact on Revenue Surplus	Impact on Fiscal Deficit
	Understated (-)/ overstated (+)	Understated (+)/ overstated (-)
Revenue Expenditure booked in Capital Expenditure	(+)7.59	-
Short transfer under SDRF	(+)122.49	(+)122.49
Non-transfer under Central Road and Infrastructure Fund	(+)183.63	(+)183.63
Total	(+)382.28	(+)386.42

Source: Finance Accounts and Appropriation Accounts, 2022-23

As can be seen from **Table 1.5** above, there was an overstatement of Revenue Surplus of the State by ₹382.28 crore during the year. Considering that the overall Revenue Surplus depicted in the accounts was ₹6,370.47 crore, the State would have a Revenue Surplus of ₹5,988.19 crore during 2022-23 if adjustments in **Table 1.5** are made.

Similarly, the Fiscal Deficit during 2022-23 was found understated by ₹386.42 crore if adjustments depicted in **Table 1.5** are affected. Considering **Table 1.5**, the State would have Fiscal Deficit ₹2,121.82 crore during 2022-23.

The Effective Revenue Surplus to GSDP of the State was to be 15.09 *per cent* which was less than the target projected in MTFP (22.60 *per cent*) and the Effective Fiscal Deficit of the State during 2022-23, was 5.35 *per cent* of GSDP which was higher than the target projected in MTFP (2.20 *per cent*) and the target prescribed in APFRBM (3.50 *per cent*).

Recommendation: The State Government should adhere to the proper accounting norms and steps may be taken to transfer the amount to the appropriate head of accounts as per accounting norms.

1.9 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 a government. Prudent financial management involves generation of an annual Revenue Surplus (Revenue Receipts exceeding Revenue Expenditure). The Twelfth Finance Commission recommended States to enact their own Fiscal Responsibility and Budget Management (FRBM) Acts to ensure prudence in the fiscal management and fiscal stability by progressive elimination of Revenue Deficit, reduction in Fiscal Deficit and prudent debt management. Accordingly, the State Government enacted the Arunachal Pradesh Fiscal Responsibility and Budget Management Act (APFRBM), 2006 with an objective of ensuring prudence in the 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 the deficit measures and debt level.

The XV Finance Commission recommended that the States should amend their FRBM Act so as to ensure that their Legislations are consistent with the fiscal sustainability framework put in place. Thus, the Government of Arunachal Pradesh amended its FRBM in April 2022, as detailed in *Appendix 1.3*. It is deemed to have come into force with effect from 01 April 2022. Further, it has been noticed from the amended FRBM Act, that the Act is not consistent with the fiscal sustainability framework as recommended by Finance Commission as Government of Arunachal Pradesh amended the targets for Fiscal Deficit only for XV FC award period.

1.9.1 APFRBM targets on key fiscal parameters and achievement

Targets relating to the key fiscal parameters envisaged in the amended APFRBM Act for the period 2018-19 to 2022-23 respectively are given in **Table 1.6**.

Table 1.6: Compliance with provisions of APFRBM Act/ Rolling targets indicators-MTFP

Fiscal Parameters	Fiscal targets set in FRBM for the year 2018-19 to 2022-23	Achievement (₹ in crore)				
		2018-19	2019-20	2020-21	2021-22	2022-23
Revenue Deficit (-)/ Surplus (+) (₹ in crore)	Revenue Surplus*	3,766.48	2,669.82	4,036.01	5,385.00	6,370.47
		✓	✓	✓	✓	✓
Fiscal Deficit as percentage of GSDP	Three per cent for 2018-19 to 2020-21	7.80	3.44	3.51	3.10	4.37
	4.00 per cent for 2021-22 and 3.50 per cent for 2022-23	✗	✗	✗	✓	✗
Ratio of total outstanding debt to GSDP (in per cent)	25 per cent For 2018-19 to 2020-21	33.90	40.40	38.81	38.71	39.44
	43.94* per cent for 2021-22 and 43.52 per cent for 2022-23	✗	✗	✗	✓	✓

Source: Finance Accounts of the respective year, MTFP and APFRBM

* APFRBM amended by the Government of Arunachal Pradesh in April 2022 did not include target of revenue surplus and the ratio of total outstanding debt to GSDP for the XV FC award period. These figures are taken from the Fiscal Indicators-Rolling targets MTFP Statement.

The State of Arunachal Pradesh was successful in maintaining Revenue Surplus as targeted in Rolling Fiscal Indicators-Rolling targets in MTFP. However, the State failed to manage the Fiscal Deficit throughout the period (except 2021-22) as the Fiscal Deficit as a percentage of GSDP exceeded the limit prescribed in the APFRBM Act. The State succeeded in anchoring the ratio of total outstanding debt to GSDP during 2021-22 and 2022-23 with in the levels prescribed in Fiscal Indicators-Rolling targets MTFP Statement, as it was 38.71 per cent and 39.44 per cent of GSDP respectively.

The State Government in its reply (October 2023) stated that APFRBM would be amended in line with the XV FC recommendations.

1.9.2 Achievement of projections made in Medium Term Fiscal Policy Statement

In compliance with the APFRBM Act, the State Government is required to lay before the House of Legislature (1) Macro Economic Framework Statement, (2) Medium Term Fiscal Plan Statement and (3) Fiscal Plan Strategy Statement, along with the Annual Financial Statement and the Demands for Grants. The Medium-Term Fiscal Plan (MTFP) is to set forth a three-year rolling target for the prescribed fiscal indicators.

Further, the Medium-Term Fiscal Policy Statement shall include a policy overview and outlook for the ensuing year on taxation, expenditure and borrowing. The aim of Medium-Term Fiscal Plan is to control revenue expenditure by cutting administrative costs by bringing austerity measures on the one hand and mobilizing additional resources by improving tax on other hand, so as to enhance investment in productive capital assets and social sectors in order to attain sustainable and equitable economic growth.

Table 1.7 indicates the variation between the projections made for 2022-23 in MTFP presented to the State Legislature with the Annual Budget for 2022-23 and Actuals for the year.

Table 1.7: Actuals vis-à-vis projection in MTFP for 2022-23

(₹ in crore)

Components	Projections as per MTFP	Actuals	Variation
1	2	3	4(3-2)
Own Tax Revenue	2,090.00	2,237.35	147.35
Non-Tax Revenue	935.00	1,017.87	82.87
Share of Union Taxes/ Duties	14,348.54	16,689.17	2,340.63
Grants-in-Aid from GoI	6,880.00	3,843.75	(-)3,036.25
Revenue Receipts	24,253.54	23,788.14	(-)465.4
Revenue Expenditure	18,201.55	17,417.67	(-)783.88
Capital Expenditure	6,701.15	8,107.36	1,406.21
Revenue Surplus/ Deficit	6,051.99	6,370.47	318.48
Fiscal Surplus(+)/ Deficit(-)	(-)644.81	(-)1,735.40	(-)2,380.21
Outstanding Debt Liabilities	12,783.90	15,646.75	2,862.85
GSDP at current prices	29,372.00	39,671.24	10,299.24
Debt-GSDP ratio (<i>per cent</i>)	43.52	39.44	(-)4.08
GSDP Growth Rate at Current Prices (<i>per cent</i>)	11.41	11.80	0.39

Source: MTFP Statement of FRBM and Finance Accounts 2022-23

Arunachal Pradesh was not able to control the outstanding liabilities and Fiscal Surplus/ Deficit within the projection made in MTFP. Actual Outstanding debt liabilities during the current year increased by ₹2,862.85 crore (22.39 *per cent*) over the projection

made in the MTFP (₹12,783.90 crore). During 2022-23, the State succeeded in controlling its Debt to GSDP ratio within the limit prescribed in MTFP as Actual Debt to GSDP ratio was 39.44 *per cent* against the 43.52 *per cent* projected in MTFP, this was due to the projected GSDP at current price in MTFP being lower than the actual GSDP. The State projected a Fiscal Deficit of ₹644.81 crore in MTFP for 2022-23 whereas the State actually had a Fiscal Deficit of ₹1,735.40 crore. This was due to the increase in the Capital Expenditure and decrease in the Revenue receipts against the projected Capital Expenditure and Revenue receipts in MTFP.

The State was able to mobilise its own resources (Own Tax Revenue *plus* Non-Tax Revenue) as envisaged in its MTFP as the actual receipts were higher than the projections by ₹230.22 crore (7.61 *per cent*). The State succeeded in controlling the Revenue Expenditure within the projection of MTFP as actual Revenue expenditure was ₹17,417.67 crore against the projected Revenue expenditure in MTFP was ₹18,201.55 crore. The State was able to achieve Revenue Surplus projected in the MTFP. Further, the Revenue Surplus impacted the Capital expenditure of the Government which was meant for the improvement of infrastructure in the State. Actual Revenue Surplus increased by ₹318.48 crore (5.26 *per cent*). The actual Capital Expenditure during the current year was ₹8,107.36 crore which exceeded the projection by ₹1,406.21 crore (20.98 *per cent*). Further, it was observed that there was inconsistency in projection made in Budget estimates and MTFP.

The State Government in reply (October 2023) stated that it would be monitored closely in the next financial year.

1.10 Conclusion

- The growth rate of GSVA was higher than that of GVA during the period from 2018-19 to 2020-21. While the growth rate during the period 2021-22 to 2022-23 was lower than the growth rate of the GVA. During 2022-23, the Service and Agriculture sectors continued to be the most important for the socio-economic progress of Arunachal Pradesh as they contributed significantly to the growth of GSDP.
- The State had managed to achieve a surplus on Revenue Account during the last five years and the Revenue surplus (₹6,370.47 crore) during the year increased by ₹985.47 crore (18.30 *per cent*) over the previous year (₹5,385.00 crore).
- During 2022-23, the Fiscal Deficit (₹1,735.40 crore) increased by ₹636.36 crore over the previous year (₹1,099.04 crore). Further, the actual Fiscal Deficit ₹1,735.40 crore during the current year was ₹1,090.59 crore higher than the projected Fiscal Deficit of ₹644.81 crore in the MTFP.
- The Government of Arunachal Pradesh amended its FRBM in April 2022, and is deemed to have come into force with effect from 01 April 2022. It has been noticed from the amended FRBM Act, that the Act is not consistent with the

fiscal sustainability framework as per the recommendation of the XV FC as the Government of Arunachal Pradesh amended the targets for Fiscal Deficit only.

- The State failed to manage the Fiscal Deficit throughout the period (except 2021-22) as the Fiscal Deficit as a *percentage* of GSDP exceeded the limit prescribed in the APFRBM Act. The State succeeded in anchoring the ratio of total outstanding debt to GSDP during 2021-22 and 2022-23 within the levels prescribed in Fiscal Indicators-Rolling targets MTFP Statement, as it was 38.71 and 39.44 *per cent* of GSDP respectively.

1.11 Recommendations

- The State Government may take measures to keep the Fiscal Deficit-GSDP ratio under the ceiling prescribed in the Arunachal Pradesh FRBM Act through prudent financial management. The State Government needs to amend the Arunachal Pradesh FRBM in line with the recommendations of the Central Finance Commission.