



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



# Chapter I: Overview of State Finances

## 1.1 Profile of the State

This chapter provides a brief profile of the State and describes the basis of and approach to the Report. The underlying data provides an overview of the structure of Government Accounts, the Budgetary processes followed, the macro-fiscal analysis of the key indices, and the State's fiscal position including the deficits/ surplus.

### • 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 State of Assam and Nagaland. According to the National Commission on Population, Ministry of Health and Family Welfare, population of the State for the year 2021-22 stood at 15,48,000<sup>1</sup> which is 0.11 *per cent* of the country's population. During the year 2021-22, State has the lowest population density in the country at 18 persons per sq. km. as against the national average of 418 persons per sq. km. The State's decadal growth rate (from 2012-13 to 2021-22) of population was 10.65 *per cent*, which is higher than the rate of the growth rate of other Himalayan State of Himachal Pradesh, Manipur, Meghalaya, Mizoram and Tripura but is lower than the growth rate of other NE & H States and is also lower than the all India growth rate of 12.12 *per cent*. According to Census 2011, the literacy rate of the state was 65.40 *per cent* which was less than the all India literacy rate (73 *per cent*) as well as NE & H States.

### • Economic Indicators

The per capita Gross State Domestic Product (GSDP) of the State at current prices was ₹2,17,267.21 in 2021-22, which was less than the per capita GSDP of Himachal Pradesh (₹2,34,376.92), Sikkim (₹5,41,543.69) and Uttarakhand (₹2,21,339.35) and higher than the per capita GSDP of other NE & H States as well as average of the all India ₹1,72,912.92. Decadal Compound Annual Growth Rate (CAGR) of per capita GSDP of the State during the year was 10.39 *per cent* which was lower than that of Assam (10.72 *per cent*), Manipur (10.99 *per cent*), Mizoram (11.93 *per cent*), Sikkim (11.79 *per cent*) and Tripura (11.81 *per cent*) but higher than that of other NE & H States as well as average of all India (8.86 *per cent*).

The Decadal Compound Annual Growth Rate (CAGR) of GSDP of the State was 11.51 *per cent* which was lower than that of the CAGR of GSDP of Assam (11.97 *per cent*), Manipur (11.89 *per cent*), Mizoram (13.33 *per cent*), Sikkim (12.92 *per cent*) and Tripura (12.94 *per cent*) and higher than that of other NE & H States as well as the all India average (10.11 *per cent*). General and financial data relating to the State are given in **Appendix 1.1 (Part C)**.

<sup>1</sup> Male:7,96,000 and Female: 7,52,000

### 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. GSDP is the most important indicator for measuring the economic growth of a State.

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

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

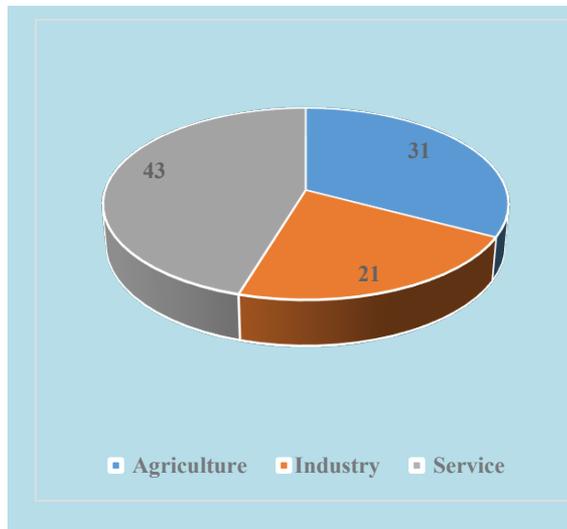
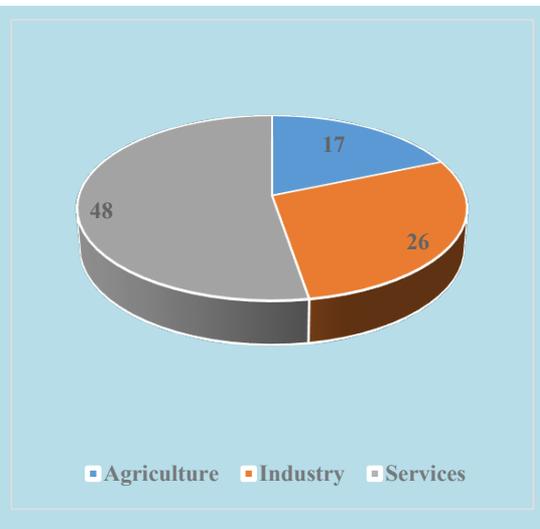
(₹ in crore)					
Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
GDP at the current price	1,70,90,042.36	1,88,99,668.44 (3 <sup>rd</sup> RE)	2,00,74,855.79 (2 <sup>nd</sup> RE)	1,98,00,913.82 (1 <sup>st</sup> RE)	2,36,64,636.99 (PE)
The growth rate of GDP at the current price	11.03	10.59	6.22	(-)1.36	19.51
GSDP at the current price	22,474.77 RE	25,330.83 RE	27,884.65 PE	29,694.61 QE	33,459.15 AE
The growth rate of GSDP current price	12.93	12.71	10.08	6.49	12.68

Sources: GoI's Economic Survey (2021-22) and Directorate of Economics and Statistics, Government of Arunachal Pradesh (GoAP)

RE-Revised Estimates; PE-Provisional Estimates; AE-Advanced Estimates and QE-Quick Estimates

It can be seen from the **Table 1.1** above that though the growth rate of GSDP during the period 2017-21 showed an overall decreasing trend, the decline in 2019-21 was accentuated mainly due to the Covid pandemic. It is also seen that while the GDP growth rate (at current prices, nominal figures) was (-) 1.36 *per cent* in 2020-21 and jumped to 19.51 *per cent* in 2021-22, Arunachal Pradesh maintained a steady and healthy growth rate of 6.49 *per cent* and 12.68 *per cent* respectively in these years. The growth rate of the GSDP during 2021-22 can be attributed mainly to the increase in Industry and Services sectors in the State.

The State Domestic Product is 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 to 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) produced within the boundaries of the State during a year. It is one of the most important measures of economic growth of a State's economy. The sectoral contribution to the GSDP and GDP during 2021-22 is given in **Charts 1.1** and **1.2** respectively for comparison.

Chart 1.1: Sector-wise GSDP for the year 2021-22  
(in per cent)Chart 1.2: Sector-wise GDP for 2021-22  
(in per cent)

Source: GoI's Economic Survey (2021-22) and Directorate of Economics and Statistics, Government of Arunachal Pradesh (GoAP)

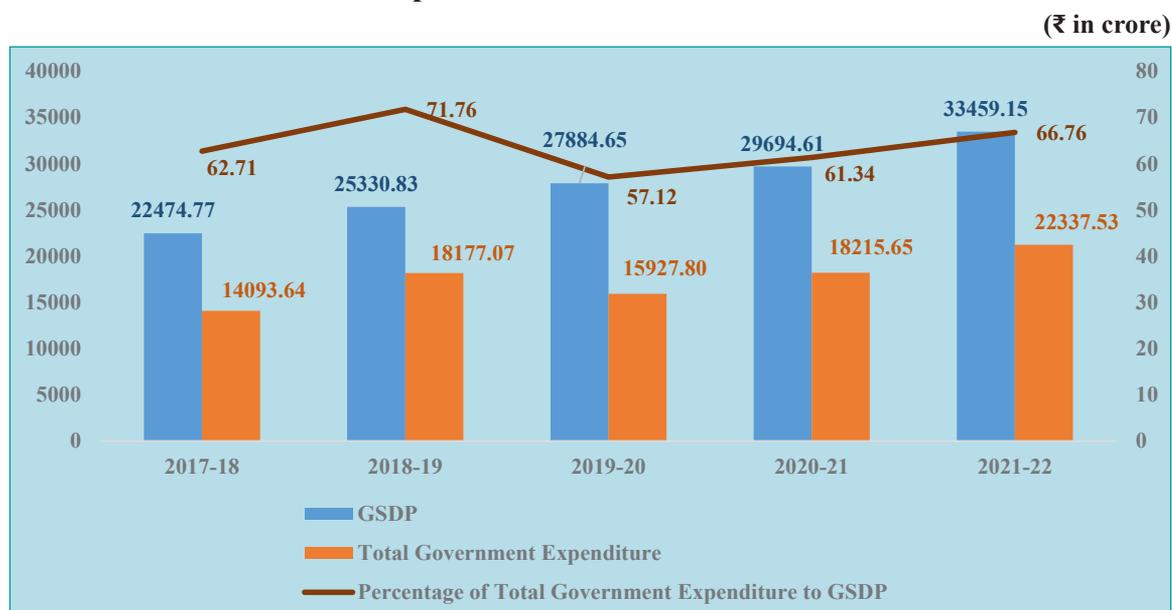
It can be seen from the above **Charts 1.1 and 1.2** that the percentage contribution of the Agriculture sector to the GSDP is higher than the percentage contribution of the Agriculture sector to the GDP. Consequently, the contributions from Industries and Services sectors to the GSDP are less when compared to contributions from Industries and Services sectors to GDP.

During 2021-22 in the Agriculture sector of the State, the major contribution was from 'Crops' and 'Forestry and Logging' which contributed 12 per cent and 16 per cent of GSDP respectively. Under the Industry sector, the major share was from 'Construction' and 'Electricity', 'Gas', 'Water supply & Other utility services' which contributed eight per cent and nine per cent of GSDP respectively. The major share of Service sector was from 'Public Administration' and 'Other services' which formed 14 per cent and 19 per cent of GSDP respectively.

While the XV FC projected the annual growth rate of GSDP of the State for the 2021-22 as 14.50 per cent, the annual growth rate of GSDP stood at 12.68 per cent during 2021-22 in spite of the Covid effects. The reduced growth rate of GSDP than the assessment made by XV FC had an adverse impact on the resource mobilization and public expenditure in the State.

The percentage of Total State Government expenditure to GSDP shows a fluctuating trend during the period from 2017-18 to 2021-22. It steadily increased from 62.71 per cent in 2017-18 to 71.76 per cent in 2018-19, dropped to 57.12 per cent in 2019-20 and climbed up to 66.76 per cent in 2021-22. The trend of the percentage of Government Expenditure to GSDP for the period 2017-18 to 2021-22 is shown in **Chart 1.3**.

**Chart 1.3: Trend of Government Expenditure to GSDP for the period 2017-18 to 2021-22**

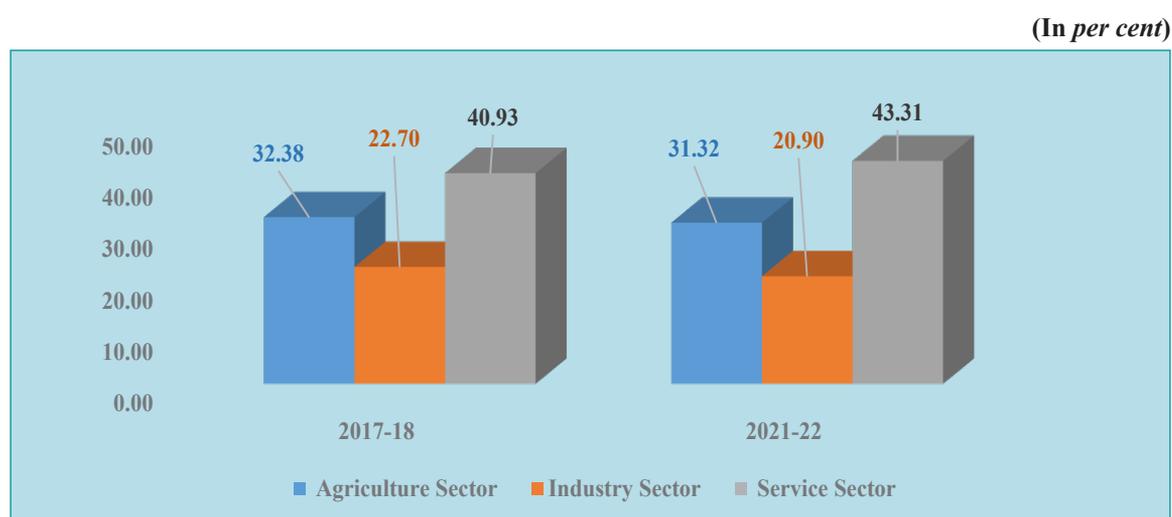


Source: Directorate of Economics and Statistics, Government of Arunachal Pradesh (GoAP) and Finance Accounts of the respective years

The high *percentage* share of Government expenditure in GSDP indicates that the State is still 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 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.

Analysis of changes in sectoral contribution to GSDP is also important to understand the changing structure of the economy of the State. The change in sectoral contribution to GSDP for the period 2017-18 to 2021-22 is shown in **Chart 1.4**.

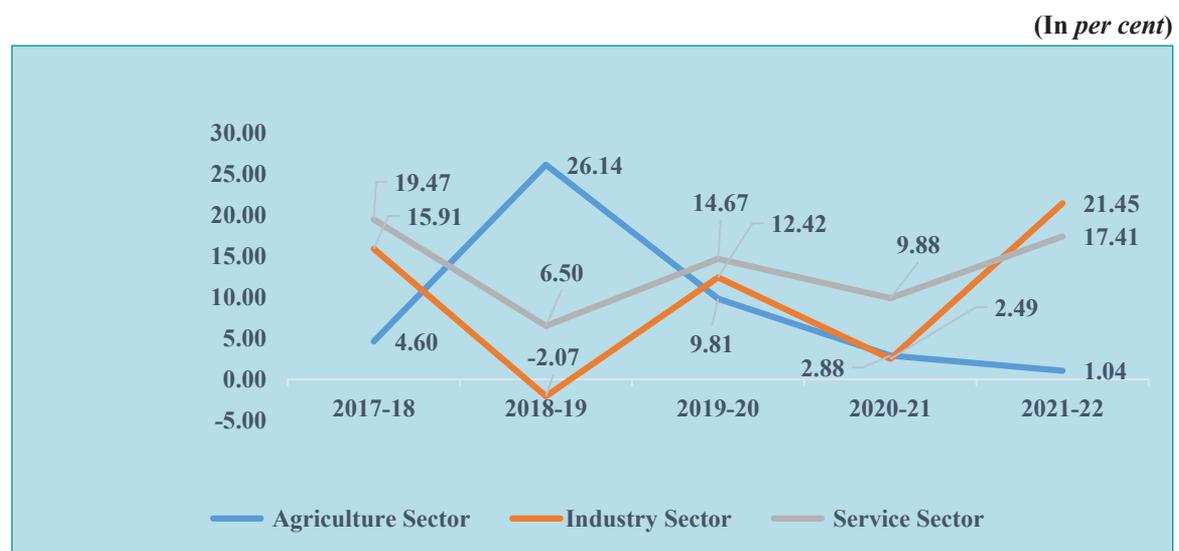
**Chart 1.4: Change in the sectoral contribution of GSDP (2017-18 to 2021-22)**



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

In the last five years, the share of Agriculture and Industry is slowing down steadily, while the Service Sector had been on the rise. There was a decrease in the relative share of 'Agriculture' and 'Industry' to GSDP. The agriculture sector share reduced from 32.38 per cent in 2017-18 to 31.32 per cent in 2021-22. The share of Industry sector also reduced from 22.70 per cent in 2017-18 to 20.90 per cent in 2021-22. With reduction in share of Agriculture and Industry, an equivalent increase was observed in share of Service and Taxes on products-subsidies on products. During the year 2021-22, Service sector emerged as the most important sector for the State's socio-economic progress as it contributed significantly to the growth of GSDP. Individual Sectoral growths in GSDP are shown in **Chart 1.5**.

**Chart 1.5: Sectoral growth of GSDP during 2017-18 to 2021-22**



Source: Directorate of Economics and Statistics, Government of Arunachal Pradesh (GoAP). The GSDP figures at the current price revised from the period 2017-18 onwards have been adopted

During the five-year period shown in **Chart 1.5**, growth rates of the Service, Industry and Taxes on products-subsidies on products fluctuated with alternate years without any upward or downwards trend, while growth rate of the Agriculture had a decreasing trend in the four year period starting from 2018-19. During the year 2021-22, the Agriculture sector decreased by 1.84 per cent over the previous year due to a decline in all components of the sector. Services sector decreased from 19.47 in 2017-18 to 17.41 per cent in 2021-22. During 2021-22 there was sudden growth in Service sector over the previous year (from 9.88 per cent to 17.41 per cent) due to a significant increase in most of its sub-sectors such as Trade, Hotels, Transport and communication. There was significant increase in Industry sector over the previous year due to increase in all components of Industry sectors.

## 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 & 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 advice 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 preparation and correctness of the initial and subsidiary accounts as well as ensuring 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 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 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 Fourteenth Finance Commission (XIV FC) and 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 18 October 2022 wherein the issues pointed out in the SFAR have been discussed. Replies of the Government, wherever relevant, have been incorporated in this Report at appropriate places.

### 1.3 Report Structure

The SFAR is structured in to the following four Chapters:

<b>Chapter - I</b>	<p><b>Overview</b></p> <p>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.</p>
<b>Chapter - II</b>	<p><b>Finances of the State</b></p> <p>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 2017-18 to 2021-22, debt profile of the State and key Public Account transactions, based on the Finance Accounts of the State.</p>
<b>Chapter - III</b>	<p><b>Budgetary Management and Budgetary Control</b></p> <p>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.</p>
<b>Chapter - IV</b>	<p><b>Quality of Accounts and Financial Reporting Practices</b></p> <p>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.</p>

### 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 authorization 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 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 Legislature.

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 expenditures of the State for the year in the form of an Annual Financial Statement. 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.

**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 <sup>2</sup> by CGA <sup>3</sup>	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)

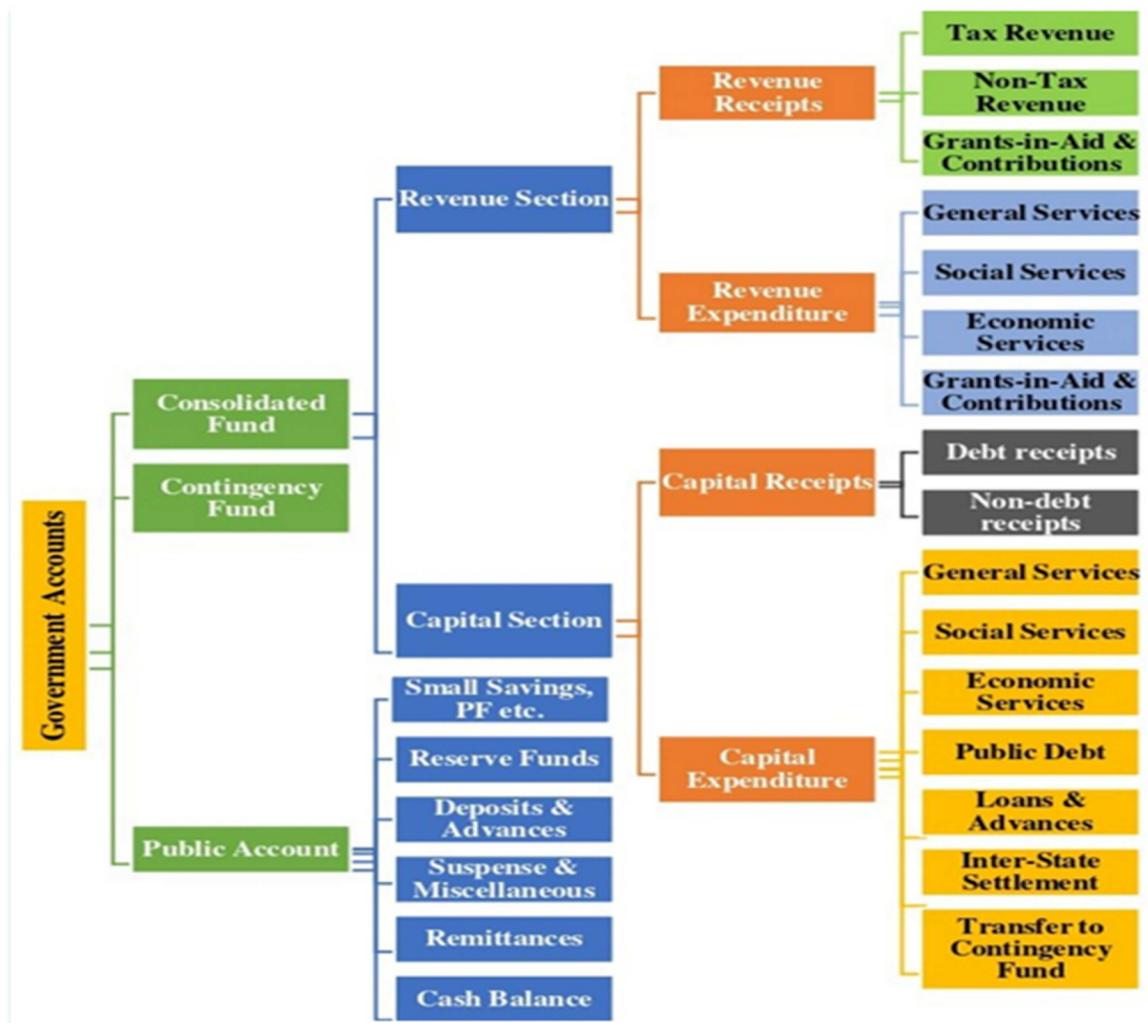
The functional classification appraises us about the department, function, scheme or programme and object of the expenditure. Economic classification helps organise these payments as revenue, capital, debt, *etc.* Economic classification is achieved by the

<sup>2</sup> List of Major and Minor Heads

<sup>3</sup> Controller General of Accounts

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



### 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 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 83 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.

The State 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 2021-22 and implementation of other budgetary initiatives of the State Government are detailed in **Chapter III** of this Report.

### 1.7 Snapshot of the Finances

Details of actual financial results for 2021-22 *vis-à-vis* Budget Estimates (BEs) for the same year and *vis-à-vis* actuals for the previous year, *i.e.*, 2020-21 are shown in **Table 1.2**. Time series data of the Finances of Government of Arunachal Pradesh for the year 2017-18 to 2021-22 are given in **Appendix 2.2**.

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

(₹ in crore)

Sl. No.	Components	2020-21 (Actuals)	2021-22 (BEs)	2021-22 (Actuals)	Percentage of Actuals to BEs	Percentage of Actuals of 2021-22 to GSDP
1	Tax Revenue	1,431.10	1,152.3	1,639.79	142.30	4.90
2	Non-Tax Revenue	836.53	850	774.67	91.14	2.32
3	Share of Union Taxes and Duties (a)	10,472.58	12,441.64	14,643.90	117.70	43.77
4	Grants-in-Aid and Contributions	4,383.30	6,646.93	4,173.28	62.79	12.47
<b>5</b>	<b>Revenue Receipts (1+2+3+4)</b>	<b>17,123.51</b>	<b>21,090.87</b>	<b>21,231.64</b>	<b>100.67</b>	<b>63.46</b>
6	Recovery of Loans and Advances	5.94	10.00	6.85	68.50	0.02
7	Other Receipts	0.00	0.00	0.00	0.00	0.00
8	Borrowings and other Liabilities (b)	1,086.20	578.50	1,099.04	189.98	3.28
<b>9</b>	<b>Capital Receipts (6+7+8)</b>	<b>1,092.14</b>	<b>588.50</b>	<b>1,105.89</b>	<b>187.92</b>	<b>3.31</b>
<b>10</b>	<b>Total Receipts (5+9)</b>	<b>18,215.65</b>	<b>21,679.37</b>	<b>22,337.53</b>	<b>103.04</b>	<b>66.76</b>
11	Revenue Expenditure	13,087.50	15,344.32	15,846.64	103.27	47.36
12	Interest payments	752.34	826.27	777.62	94.11	2.32
13	Capital Expenditure	5,123.35	6,328.05	6,488.33	102.53	19.39
14	Loan and advances	4.8	7.00	2.56	36.57	0.01
<b>15</b>	<b>Total Expenditure (11+13+14)</b>	<b>18,215.65</b>	<b>21,679.37</b>	<b>22,337.53</b>	<b>103.04</b>	<b>66.76</b>
16	Revenue Surplus (5-11)	4,036.01	5,746.55	5,385.00	93.71	16.09
17	Fiscal Deficit {15-(5+6+7)}	1,086.20	578.50	1,099.04	189.98	3.28
18	Primary Deficit (17-12)	333.86	(-)247.77	321.42	129.73	0.96

Source: Finance Accounts of respective years and Annual Financial Statement of GoAP of 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 2021-22, BE of the Revenue Receipts was ₹21,090.87 crore which was higher than BE of previous year (₹20,594.59 crore) by ₹496.28 crore. The actual receipts during the year was ₹140.77 crore more than the estimate of Revenue Receipts. However, revenue surplus was 6.29 *per cent* less than the estimate. Fiscal Deficit was 89.98 *per cent* higher than the Budget Estimates. The detailed analysis on the finances of the State Government is made in the subsequent Chapters of the report.

### 1.8 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 1.3: Summarised position of Assets and Liabilities**

(₹ in crore)

Liabilities			Assets		
	2020-21	2021-22		2020-21	2021-22
<b>Consolidated Fund</b>					
Internal Debt	7,348.10	8,130.52	Gross Capital Expenditure	37,922.50	44,410.84
Loans and Advances from GoI	359.71	705.30	Loans and Advances	95.85	91.56
Contingency Fund	0.05	0.05			
<b>Public Account</b>					
Small Savings, Provident Funds, etc.	2,719.41	2,962.88	Advances	507.58	502.51
Deposits	190.53	155.83	Remittance	(-146.61)	-119.91
Reserve Funds	3,078.86	3,811.87	Cash balance (including investment in Earmarked Fund)	3,389.33	4,356.35
Suspense and Miscellaneous	(-1,292.34)	(-1274.43)			
Surplus in Revenue Account	29,364.33	34,749.33			
<b>Total</b>	<b>41,768.65</b>	<b>49,241.35</b>	<b>Total</b>	<b>41,768.65</b>	<b>49,241.35</b>

Source: Finance Accounts of respective year

### 1.9 Trends in Key Fiscal Parameters

Deficit financing done judiciously is an indicator of prudent fiscal management by the Government. 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 2021-22.

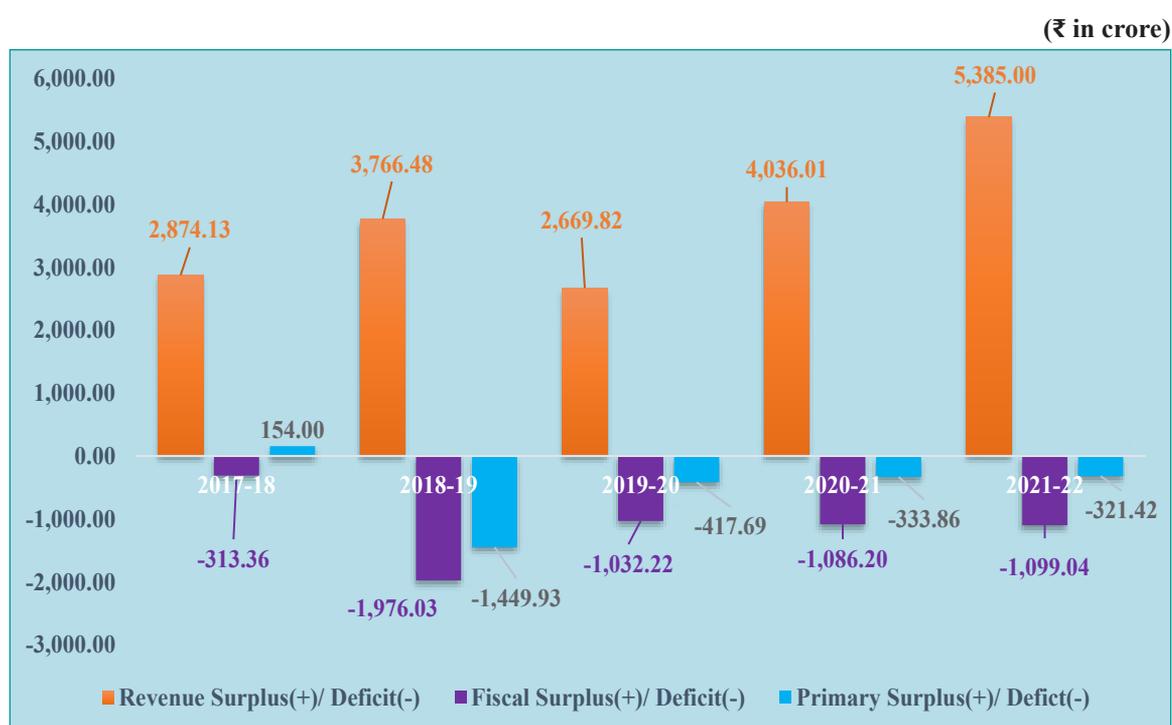
### 1.9.1 What are Deficit and Surplus?

<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 2021-22 which can be attributed to higher percentage increase in revenue receipts compared to the percentage increase in revenue expenditure. The Revenue Surplus in the current year reached up to ₹5,385.00 crore. However, the actual Revenue Surplus was less than the projected Revenue Surplus during budget of 2021-22 and was also less than the amounts mentioned in MTFP during 2021-22. The trend of the surplus deficit indicators in the past five years are given in **Chart 1.6**.

**Chart 1.6: Trends in Surplus/ Deficit indicators**



Source: Finance Accounts of respective year

**Chart 1.6** reveals that the State consistently maintained Revenue Surplus during the period 2017-18 to 2021-22, which increased by ₹2,510.87 crore (87.36 per cent) from ₹2,874.13 crore in 2017-18 to ₹5,385.00 crore in 2021-22. Revenue Surplus in 2021-22 increased by ₹1,348.99 crore (33.42 per cent) over the previous year (₹4,036.01 crore). This was due to significant increase in Revenue Receipts by ₹4,108.13 crore (23.99 per cent) over the previous year (₹17,123.51 crore). The actual Revenue Surplus ₹5,385.00 crore during the current year was less by ₹361.55 crore (6.29 per cent) from the projected Revenue Surplus ₹5,746.55 crore in Budget Estimates. This was due to increase in actual Revenue

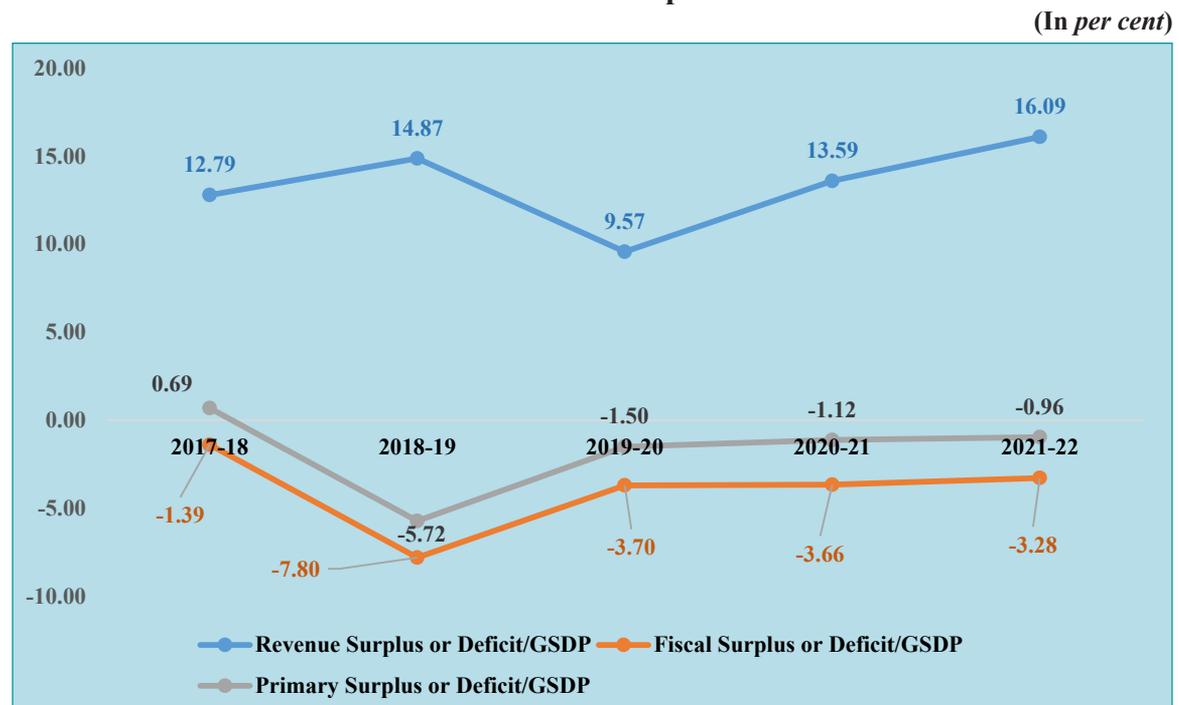
Expenditure (₹15,846.64 crore) over the projected Revenue Expenditure (₹15,344.32 crore) in Budget Estimate by ₹502.32 crore.

Fiscal Surplus/ Deficit which represents difference between non-debt creating revenues and borrowings. State did not achieve Fiscal Surplus during the period 2017-18 to 2021-22, and the Fiscal Deficit increased by ₹785.68 crore (250.07 per cent) from ₹313.36 crore in 2017-18 to ₹1,099.04 crore in 2021-22. Fiscal deficit reached its peak in 2018-19 at ₹1,976.03 crore. During 2021-22, the Fiscal Deficit increased by ₹12.84 crore over the previous year (₹1,086.20 crore). This was due to an increase in the Total Expenditure over the previous year. Further, the Fiscal Deficit of ₹1,099.04 crore was higher as against the projected Fiscal Deficit of ₹578.50 crore in Budget Estimates. Thus, the actual Fiscal Deficit exceeded the projections made in the budget by 89.98 per cent (₹520.54 crore) which was attributed to increase in actual Total Expenditure over the projected Total Expenditure in Budget Estimates.

A Primary Surplus was experienced by the State during 2017-18, however, a turnaround with a Primary Deficit of ₹1,449.93 crore was observed in 2018-19. Thereafter, the Primary Deficit steadily reduced to ₹321.42 crore in 2021-22. This primary deficit in the period 2018-19 to 2021-22 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 2017-18 to 2021-22 is depicted in **Chart 1.7**.

**Chart 1.7: Trends in Deficit/ Surplus relative to GSDP**



Source: Finance Accounts of respective year

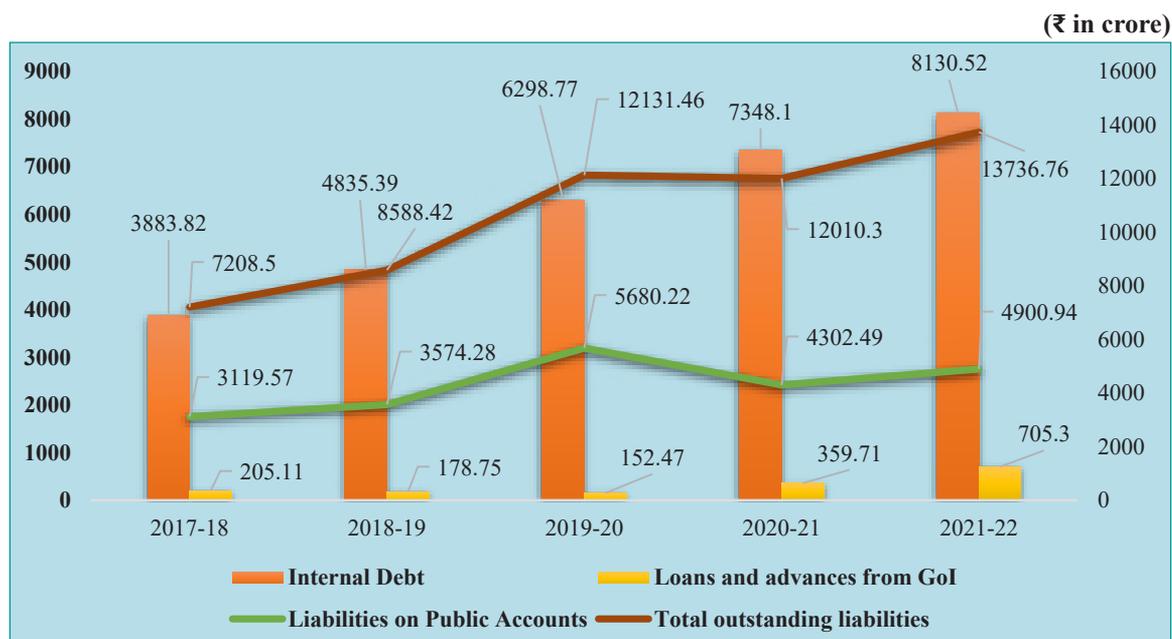
The ratio of Revenue Surplus to GSDP has shown an increasing trend during the past three years (2018-19 to 2021-22). This has helped to reduce the Primary Deficit to GSDP ratio significantly from 1.50 per cent to 0.96 per cent in these three years. Fiscal Deficit includes interest payments on previous borrowings by the State in addition to the Primary

Deficit. In the same period, Fiscal Deficit to GSDP ratio improved from 3.70 per cent to 3.28 per cent. Steady increase in Revenue Surplus and decrease in Fiscal and Primary Deficits as a percentage of GSDP shows improvement in fiscal performance of the State.

During, 2021-22, the ratio of Revenue Surplus and Fiscal deficit to GSDP of the State were 16.09 and 3.28 per cent while the average of ratio of Revenue surplus and Fiscal deficit to GSDP of NE & H States were 1.09 and 3.48 per cent respectively.

Trend of fiscal liabilities during the period 2017-18 to 2021-22 is shown in **Chart 1.8**.

**Chart 1.8: Trends of Fiscal Liabilities**



Source: Finance Accounts of the respective year

Note: Figure for Outstanding Liabilities for the 2020-21 is changed due to correction in Finance Accounts

Total Outstanding Liabilities increased by ₹6,528.26 crore (90.56 per cent) from ₹7,208.50 crore in 2017-18 to ₹13,736.76 crore in 2021-22. Contributing to the increase in total Outstanding Liabilities are internal Debt (109.34 per cent increase from 2017-18 to 2021-22), Loans and Advances (243.86 per cent from 2017-18 to 2021-22) and Liabilities on Public Accounts<sup>4</sup> (57.10 per cent increase from 2017-18 to 2021-22).

### 1.9.3 Effective Revenue Surplus and Fiscal Deficit

Excessive focus on short-term objective of overcoming Fiscal Deficit, encourages creative accounting and recourse to one-off deficit-reducing measures. **Table 1.4** assesses effective Surplus/ Deficit after taking into account short-contribution/ non-contribution to funds and incorrect classifications/ booking by the State Government during 2021-22.

<sup>4</sup> 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

**Table 1.4: 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	(+) 18.27	(+) 18.27
Non-discharge of Interest liabilities	(+) 57.37	(+) 57.37
Short Contribution of Government matching share towards NPS	(+) 2.71	(+) 2.71
Capital Expenditure booked in Revenue Expenditure	(-) 178.16	--
Revenue Expenditure booked in Capital Expenditure	(+) 50.24	--
Non-transfer of SDRF to Public Account	(+) 111.11	(+) 111.11
<b>Total</b>	<b>(+)61.54</b>	<b>(+)189.46</b>

Source: Finance Accounts, 2021-22

As can be seen from the **Table 1.4**, that there was an overstatement of Revenue Surplus by ₹61.54 crore during the year. Considering that the overall Revenue Surplus depicted in the accounts was ₹5,385.00 crore, the State would have a Revenue Surplus of ₹5,323.46 crore during 2021-22 if adjustments in **Table 1.4** are made.

Similarly, the Fiscal Deficit during the year 2021-22 was found understated by ₹189.46 crore, if adjustments in **Table 1.4** are made. Considering the **Table 1.4**, the State would have Fiscal Deficit ₹1,288.50 crore during 2021-22.

The Effective Revenue Surplus to GSDP of the State was 15.91 *per cent* which was less than the target projected in MTFP (21.80 *per cent*) and the Effective Fiscal Deficit of the State during 2021-22, was 3.85 *per cent* of GSDP which was within the limit prescribed in APFRBM (4.00 *per cent*).

### 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 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 to ensure prudence in 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 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.

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

frame work put in place. Thus, Government of Arunachal Pradesh amended its FRBM in April 2022, details in **Appendix 1.3**. It shall be deemed to have come into force with effect from 1 April 2022. Further, it has been noticed from the amended FRBM Act, that the Act is not consistent with the fiscal sustainability frame work as Government of Arunachal Pradesh amended only the targets for Fiscal Deficit and Revenue Surplus for XV FC award period.

### 1.10.1 APFRBM targets on key fiscal parameters and achievement thereon

Targets relating to key fiscal parameters envisaged in the amended APFRBM Act for the 2017-18 to 2021-22 respectively are given in the **Table 1.5**.

**Table 1.5: Compliance with provisions of APFRBM Act/ Rolling targets indicators-MTFP**

Fiscal Parameters	Fiscal targets set in FRBM for the year 2017-18 to 2021-22	Achievement (₹ in crore)				
		2017-18	2018-19	2019-20	2020-21	2021-22
Revenue Deficit (-)/Surplus (+) (₹ in crore)	Revenue Surplus*	2,874.13	3,766.48	2,669.82	4,036.01	5,385.00
		✓	✓	✓	✓	✓
Fiscal Deficit as percentage of GSDP	Three per cent for 2017-18 to 2020-21 4.00 per cent 2021- 22	(-)1.39	(-)7.80	(-)3.70	(-)3.66	(-)3.28
		✓	X	X	X	✓
Ratio of total outstanding debt to GSDP (in per cent)	25 per cent For 2017-18 to 2020-21 43.94* per cent for 2021-22	32.07	33.91	43.51	40.45	41.06
		X	X	X	X	✓

Source: Finance Accounts of respective year

\* APFRBM amended by the Government of Arunachal Pradesh in April 2022 did not includes target of revenue surplus and ratio of total outstanding debt to GSDP for the year 2021-22. These figures taken from Fiscal Indicators-Rolling targets MTFP Statement.

The State Government was successful in maintaining Revenue Surplus as targeted in Rolling fiscal indicators-Rolling targets in MTFP. The State maintained Fiscal Deficit in 2017-18 and 2021-22 within the limit prescribed in the APFRBM. However, from 2018-19 to 2020-21, Fiscal Deficit as a percentage of GSDP exceeded the limit prescribed in the APFRBM Act. In 2021-22, the Fiscal Deficit and outstanding debt of the State government anchored to the levels prescribed in the FRBM, as it was 3.28 per cent and 41.06 per cent of GSDP respectively.

### 1.10.2 Achievement of projections made in Medium Term Fiscal Policy Statement

In compliance with 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) has to set forth a three-year rolling target for the prescribed fiscal indicators.

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 1.6** indicates the variation between the projections made for 2021-22 in MTFP presented to the State Legislature with the Annual Budget for 2021-22 and Actuals for the year.

**Table 1.6: Actuals vis-à-vis projection in MTFP for 2021-22**

(₹ in crore)

Sl. No.	Fiscal Variables	Projection as per MTFP	Actuals	Variation
			2021-22	
1	Own Tax Revenue	1,900.00	1,639.79	(-)260.21
2	Non-Tax Revenue	850	774.67	(-)75.33
3	Share of Central Taxes	11,693.94	14,643.90	2,949.96
4	Grants-in-aid from GoI	6,646.93	4,173.28	(-)2,473.65
5	Revenue Receipts (1+2+3+4)	21,090.87	21,231.64	140.77
6	Revenue Expenditure	15,344.32	15,846.64	502.32
7	Revenue Surplus (5-6)	5,746.55	5,385.00	(-)361.55
8	Fiscal Deficit	578.5	1,099.04	520.54
9	Debt-GSDP ratio ( <i>per cent</i> )	43.94	41.06	(-)2.88
10	GSDP growth rate at current prices ( <i>per cent</i> )	5.00	12.68	7.68

Source: MTFP Statement and Finance Accounts, 2021-22

The State could not mobilise its own resources (Own Tax Revenue *plus* Non-Tax Revenue) as envisaged in its MTFP as the actual receipts fell short of the projections by 12.20 *per cent* (₹335.54 crore). The State failed to peg the Revenue Expenditure at ₹15,344.32 crore as envisaged in MTFP by reducing administrative costs through introduction of appropriate austerity measures. The actual Revenue Expenditure exceeded the projected expenditure by ₹502.32 crore (3.28 *per cent*). It was observed that while the increase in the resources was ₹140.77 crore, however, the increase in the Revenue Expenditure was not proportionate, due to which the Revenue Surplus indicated in the MTFP could not be achieved. During 2021-22, the ratio of Revenue surplus to GSDP was 16.09 *per cent* which was less than that of the target envisaged in MTFP (21.80 *per cent*). This non-achievement of targeted Revenue Surplus impacted the Capital Expenditure of the Government which was meant for the improvement of infrastructure in the State. The actual Revenue Surplus fell short of the target by ₹361.55 crore. During the year 2021-22, the State succeeded to control its Debt to GSDP ratio within the limit prescribed in MTFP as Actual Debt to GSDP ratio was

41.06 per cent against the 43.94 per cent projected in MTFP. The Fiscal Deficit could not meet the targets set in MTFP as Fiscal Deficit during the 2021-22 exceeded the projected Fiscal Deficit target in MTFP by ₹520.54 crore.

### 1.11 Conclusion

- The State GSDP was ₹33,459.15 crore during 2021-22 with a growth rate of 12.68 per cent over the previous year which was lower than the growth rate of all India's GDP (19.51 per cent). The service sector was the major contributor to GSDP during the year with 43.31 per cent. Agriculture was the second major contributor with 31.32 per cent while Industry was the third contributor with 20.90 per cent.
- The State had managed to achieve a surplus on Revenue account during last five years and the Revenue Surplus (₹5,385.00 crore) during the year increased by 33.42 per cent (₹1,348.99 crore) over the previous year (₹4,036.01 crore).
- The Fiscal Deficit (₹1,099.04 crore) increased by ₹12.84 crore over the previous year (₹1,086.20 crore).
- The State was able to meet the projections made under Arunachal Pradesh "Fiscal Indicators-Rolling targets in MTFP", regarding Revenue Surplus and ratio of Outstanding Debt to GSDP, but could not manage to achieve the ceiling prescribed for the Fiscal Deficit-GSDP.

### 1.12 Recommendation

- State Government may take measures to keep the Fiscal Deficit-GSDP ratio under the ceilings prescribed in the Arunachal Pradesh "Fiscal Indicators-Rolling targets in MTFP" through prudent financial management.