

# Chapter I: Overview of the State Finances

## 1.1 Profile of the State

Nagaland is situated in the North-Eastern Region of India, bordering three States viz., Assam in North and West, Arunachal Pradesh in East and Manipur in the South. It has an international border with Myanmar in the East (215 km) which runs parallel to the bank of Brahmaputra. With a geographical area of 16,579 sq. kms. *i.e.*, about 0.50 *per cent* of country's total geographical area, Nagaland population in 2022 is 22.13 lakh which is 0.15 *per cent* population of the Country. Nagaland has a lower density of population, population below poverty line, infant mortality rate and decadal population growth (2012 to 2022) as compared to the All India average figures. It has a higher literacy rate as compared to the All India Average figures. At present, Nagaland has 16 districts. The per capita GSDP in respect of Nagaland for the year 2021-22 is ₹ 1,45,856 as compared to ₹ 1,46,087 for the Nation.

General and financial data relating to the State are given in *Appendix 1.1*.

### 1.1.1 Gross State Domestic Product of the State

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

The growth rate for the period from 2017-18 to 2021-22 compared with India's GDP is presented in **Table 1.1**.

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

Year	2017-18	2018-19	2019-20	2020-21	2021-22
GDP (2011-12 Series)	1,70,90,042	1,88,99,668 (3 <sup>rd</sup> RE)	2,00,74,857 (2 <sup>nd</sup> RE)	1,98,00,915 (1 <sup>st</sup> RE)	2,36,64,638 (PE)
Growth rate of GDP over previous year (in <i>per cent</i> )	11.03	10.59	6.22	-1.36	19.51
State's GSDP (2011-12 Series)	24,393	26,527	29,716	30,425 (PE)	32,424 (AE)
Growth rate of GSDP over previous year (in <i>per cent</i> )	12.29	8.75	12.02	2.39	6.57

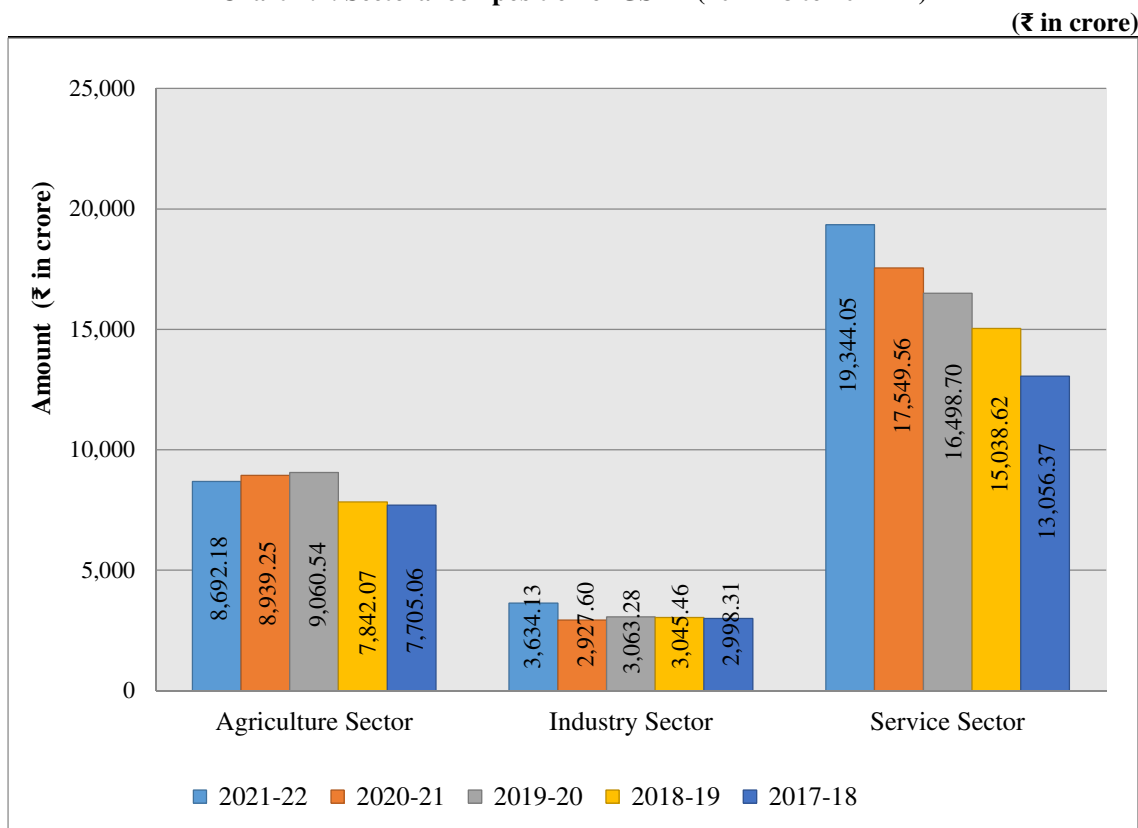
Sources: GDP- Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation GSDP- Directorate of Economics and Statistics, Government of Nagaland  
RE: Revised Estimates; PE: - Provisional Estimates; A.E: - Advance Estimates

As can be seen from **Table 1.1**, during the five-year period 2017-22, the growth rate of GSDP of the State showed fluctuating trend as compared to trend of the GDP. However, the growth rate for 2017-18 and 2019-21 for the State was higher compared to the National growth rate. The CAGR of GSDP for Nagaland (9.68 per cent) in the decade was lower than the CAGR of Arunachal Pradesh (11.51 per cent), Assam (11.97 per cent), Manipur (11.89 per cent), Mizoram (13.33 per cent), Sikkim (12.92 per cent), Tripura (12.94 per cent), Jammu & Kashmir (9.37 per cent) and all India CAGR (10.11 per cent) and was higher than the CAGR of the other North Eastern and Himalayan (NE&H) States<sup>1</sup>.

The GSDP fell short of the assessment made by the XV Finance Commission (FC) during 2021-22. The actual GSDP during 2021-22 was ₹ 32,423.74 crore i.e., 8.32 per cent (₹ 2,942.26 crore) less than the assessment made by the XV FC (₹ 35,366.00 crore). While the XV FC projected an annual growth rate of GSDP for the 2021-22 as 7.50 per cent, the annual growth rate of GSDP stood at 6.57 per cent during 2021-22.

**Charts 1.1 and 1.2** depict the details of shift in sectoral contribution to GSDP and sectoral growth of the GSDP during the period 2017-22.

**Chart-1.1: Sectoral composition of GSDP (2017-18 to 2021-22)**



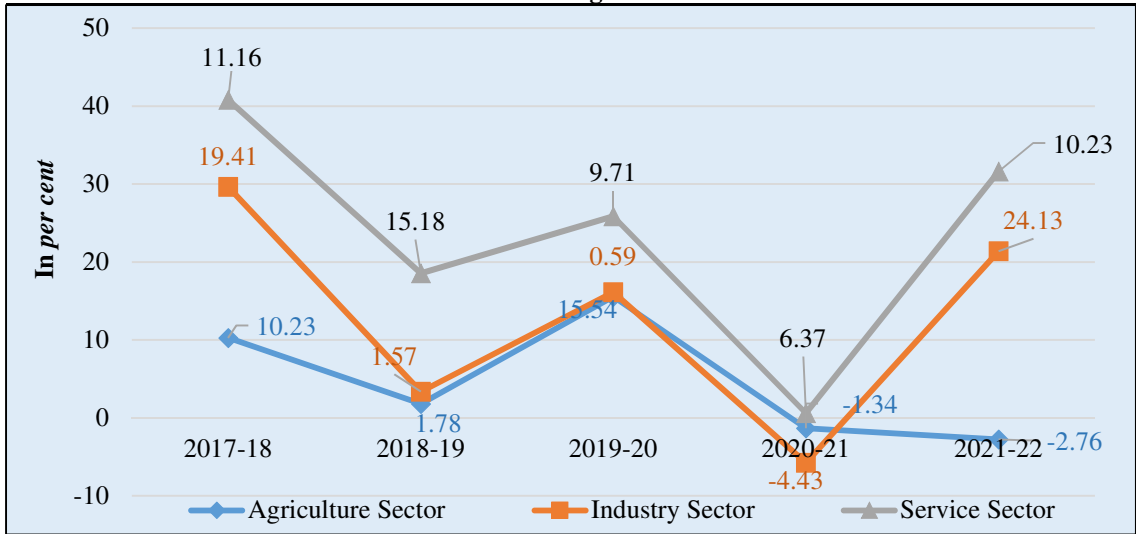
Source: Information furnished by the Directorate of Economics and Statistics, GoN

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

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

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

Chart 1.2: Sectoral growth in GSDP



Source: Information furnished by Directorate of Economics and Statistics, Government of Nagaland

The GSDP increased by ₹ 8,030.78 crore during the period 2017-18 (₹ 24,392.96 crore) to 2021-22 (₹ 32,423.74 crore) at a Compounded Annual Growth Rate (CAGR) of 7.37 per cent. During the current year, GSDP increased by ₹ 1,998.62 crore (6.57 per cent) over the previous year mainly due to increase in contribution under Industry and Service sectors.

During the five-year period from 2017-18 to 2021-22, Service sector was the major contributor to the GSDP contributing over 50 per cent. During 2021-22, the Service sector contributed 59.66 per cent followed by Agriculture sector with 26.81 per cent and Industry sector with 11.21 per cent. Taxes on products - Subsidies on products formed 2.32 per cent of GSDP.

The sector-wise trend is discussed below:

- (i) Agriculture Sector increased by ₹ 987.12 crore during the period 2017-18 (₹ 7,705.06 crore) to 2021-22 (₹ 8,692.18 crore) at a CAGR of 3.06 per cent. During 2021-22, the major contributor in this sector was Agriculture, Forestry and Fishing (97.29 per cent). The decrease of ₹ 247.07 crore (2.76 per cent) over the previous year was primarily due to decrease in activities under 'Forestry and Logging' and 'Mining and Quarrying' by 29.83 and 21.42 per cent respectively, over the previous year.
- (ii) Industry Sector increased by ₹ 635.82 crore during the period 2017-18 (₹ 2,998.31 crore) to 2021-22 (₹ 3,634.13 crore) at a CAGR of 4.93 per cent. During 2021-22, major contributors in this sector were construction (71.57 per cent) and electricity, gas, water supply and other utility services (18.12 per cent). The increase of ₹ 706.53 crore (24.13 per cent) during 2021-22 over the previous year was primarily due to increase in contribution under construction by 28.50 per cent.
- (iii) Service Sector increased by ₹ 6,287.86 crore during the period 2017-18 to 2021-22 at a CAGR of 10.33 per cent. During 2021-22, major contributors in this sector

were public administration (34.21 *per cent*), other services (26.42 *per cent*), and trade, repair, hotels and restaurants (17.07 *per cent*). During 2021-22, increase of ₹ 1,794.49 crore (10.23 *per cent*) over the previous year was primarily due to increase under Trade, Hotels and Restaurant, Public Administration and Other Services by 8.79 *per cent*.

## 1.2 Basis and Approach to State Finances Audit Report

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

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

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

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

The analysis is also carried out in the context of recommendations of the XV FC, State Fiscal Responsibility and Budget Management Act, best practices and guidelines of GoI.

## 1.3 Report Structure

The SFAR is structured into the following four Chapters:

<b>Chapter – 1</b>	<b>Overview of the State Finances</b> This Chapter describes the basis and approach to the Report and the underlying data, provides an overview of structure of government accounts, budgetary processes, macro-fiscal analysis of key indices and State's fiscal position including the deficits/ surplus.
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<b>Chapter – 2</b>	<b>Finances of the State</b> This Chapter provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the period from 2017-2018 to 2021-22, debt profile of the State and key Public Account transactions, based on the Finance Accounts of the State.
<b>Chapter – 3</b>	<b>Budgetary Management</b> This Chapter is based on the Appropriation Accounts of the State and reviews the appropriations and allocative priorities of the State Government and reports on deviations from Constitutional provisions relating to budgetary management.
<b>Chapter – 4</b>	<b>Quality of Accounts and Financial Reporting Practices</b> This Chapter comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the State Government.

## 1.4 Overview of Government Accounts Structure and Budgetary Processes

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

### **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 (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 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.

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

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

### **Public Account of the State (Article 266 (2) of the Constitution of India)**

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 Public Account. Public Account includes repayables like Small Savings and Provident Funds, Deposits (bearing interest and not bearing interest), Advances, Reserve Funds (bearing interest and not bearing interest), Remittances and Suspense heads (both of which are transitory heads, pending final booking). The net cash balance available with the Government is

also included under Public Account. Public Account is not subject to the vote of the Legislature.

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

**Revenue Receipts** consist of Tax Revenue, Non-Tax Revenue, share of Union Taxes/Duties, and grants from Government of India.

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

The capital receipts consist of:

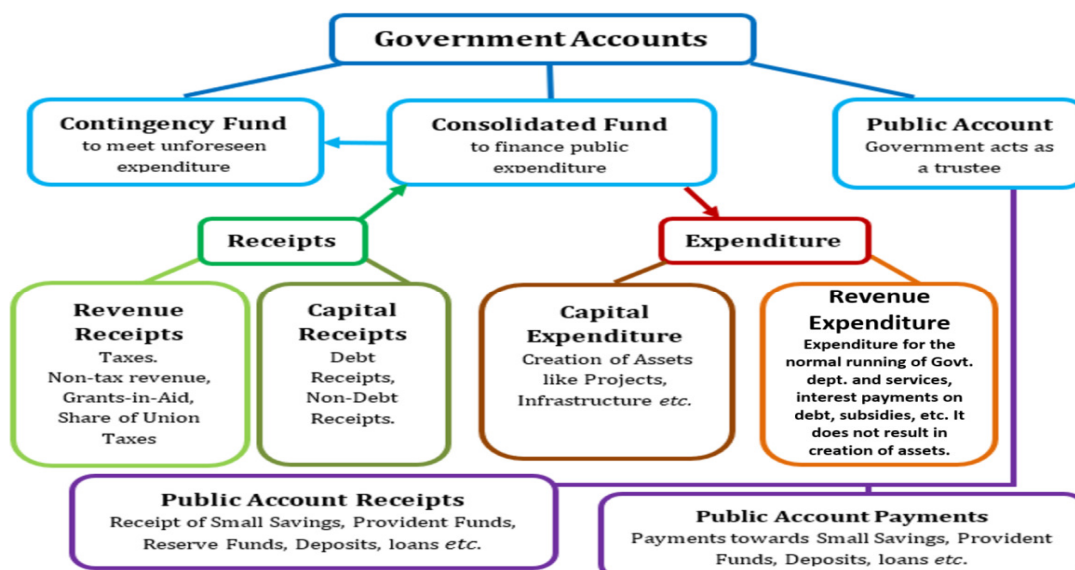
**Debt Receipts** include Market Loans, Bonds, Loans from financial institutions, Net transaction under Ways and Means Advances, Loans and Advances from Central Government, *etc.*;

**Non-debt Receipts** include proceeds from disinvestment, recoveries of loans and advances;

**Capital Expenditure** includes expenditure incurred with the objective of increasing concrete assets of a material and permanent character *viz.*, on the acquisition of land, building, machinery, equipment, investment in shares, and loans and advances by the government to PSUs and other parties.

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

Chart 1.3: Pictorial depiction of the structure of Government Accounts



At present, we have an accounting classification system in Government that is both functional and economic as shown in **Table 1.2**.

**Table 1.2: Accounting classification system in Government**

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

The functional classification lets us know the Department, Function, Scheme or Programme, and object of the expenditure. Economic classification helps organise these payments as revenue, capital, debt, *etc.* Economic classification is achieved by the numbering logic embedded in the first digit of 4-digit Major Heads. For instance, 0 and 1 is for revenue receipts, 2 and 3 for revenue expenditure, *etc.* Economic classification is also achieved by an inherent definition and distribution of some object heads. For instance, while “salary” object head is revenue expenditure, “construction” object head is capital expenditure. Object Head is the primary unit of appropriation in the budget documents.

### **Budgetary Processes**

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

Government of Nagaland (GoN) has not prepared its Budget manual so far. While formulating its Budget for 2021-22, the State Government introduced several significant and proactive policies to promote the overall development of the State and its people. However, no separate sub-budgets were prepared during 2021-22. Results of audit scrutiny of budget and implementation of other budgetary initiatives of the State Government are detailed in **Chapter 3** of this Report.

### **Summarised position of Finances**

Details of actual financial results *vis-à-vis* Budget Estimates (BEs) for the year 2021-22 *vis-à-vis* actual of 2020-21 are shown in **Table 1.3**.

Table 1.3: Financial results vis-à-vis BEs

Sl. No.	Components	2020-21 Actuals	2021-22		Percentage of Actuals to BEs	Percentage of Actuals to GSDP
			BEs	Actuals		
1.	Tax Revenue	4,431.99	5,056.26	6,176.35	122.15	19.05
	Own Tax Revenue	1,022.74	1,271.62	1,301.08	102.23	4.01
	Share of Union taxes/ duties	3,409.25	3,784.64	4,875.27	128.82	15.04
2.	Non-Tax Revenue	242.60	283.41	303.58	107.12	0.94
3.	Grants-in-aid and Contributions	6,752.84	9,317.15	6,971.21	74.82	21.50
<b>4.</b>	<b>Revenue Receipts (1+2+3)</b>	<b>11,427.43</b>	<b>14,656.82</b>	<b>13,451.14</b>	<b>91.77</b>	<b>41.49</b>
5.	Recovery of Loans and Advances	1.23	1.51	1.88	124.50	0.01
6.	Other Receipts	0.00	0.00	0.00	NA	0.00
7.	Borrowings and other Liabilities (a)	1,175.92	1,426.30	1,045.13	73.28	3.22
<b>8.</b>	<b>Capital Receipts (5+6+7)</b>	<b>1,176.29</b>	<b>1,427.81</b>	<b>1,047.01</b>	<b>73.33</b>	<b>3.23</b>
<b>9.</b>	<b>Total Receipts (4+8)</b>	<b>12,603.72</b>	<b>16,084.63</b>	<b>14,498.15</b>	<b>90.14</b>	<b>44.71</b>
<b>10.</b>	<b>Revenue Expenditure</b>	<b>11,052.06</b>	<b>13,694.88</b>	<b>11,817.08</b>	<b>86.29</b>	<b>36.45</b>
11.	Interest payments	856.77	1,061.12	932.09	87.84	2.87
<b>12.</b>	<b>Capital Expenditure</b>	<b>1,671.93</b>	<b>2,285.14</b>	<b>1,893.85</b>	<b>82.88</b>	<b>5.84</b>
13.	Loan and advances	5.61	2.68	2.61	97.39	0.01
<b>14.</b>	<b>Total Expenditure (10+12+13)</b>	<b>12,729.60</b>	<b>15,982.70</b>	<b>13,713.54</b>	<b>85.80</b>	<b>42.29</b>
15.	Revenue Deficit/ Surplus (4-10)	<b>375.37</b>	961.94	1,634.06	169.87	<b>5.04</b>
16.	Fiscal Deficit {14-(4+5+6)}	<b>1,300.94</b>	1,324.37	260.52	19.67	<b>0.80</b>
17.	Primary Surplus (16-11)	<b>444.17</b>	263.25	671.57	255.11	<b>2.07</b>

Source: Finance Accounts, 2021-22 and Annual Financial Statement, 2021-22

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

(b) Expenditure on Capital Account includes Capital Expenditure and Loans and Advances disbursed.

- Own Tax Revenue collections and Non-Tax Revenue exceeded the BEs while Grants-in-Aid (GIA) from GoI fell short over the budget estimates. Overall Revenue Receipts of the State fell short of the BEs mainly due to overestimation of GIA from GoI.
- During 2021-22, the State continued as a Revenue Surplus State due to significant growth in Revenue Receipts. Revenue Receipts increased by ₹ 2,023.71 crore (17.71 per cent) from ₹ 11,427.43 crore in 2020-21 to ₹ 13,451.14 crore in 2021-22, while Revenue Expenditure decreased by ₹ 765.02 crore (6.92 per cent) from ₹ 11,052.06 crore in 2020-21 to ₹ 11,817.08 crore in 2021-22.
- Fiscal Deficit decreased over the previous year by ₹ 1,040.42 crore (79.97 per cent) from ₹ 1,300.94 crore in 2020-21 to ₹ 260.52 crore in 2021-22. The Government's Capital Expenditure increased by ₹ 218.92 crore (13.05 per cent) from ₹ 1,677.54 crore in 2020-21 to ₹ 1,896.46 crore in 2021-22.

### Summarised position of Assets and liabilities of the Government

Government accounts capture the financial liabilities of the Government and assets created out of the expenditure incurred. The liabilities consist mainly of internal borrowings, loans and advances from GoI, receipts from public account and reserve



funds, and the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

Financial position of Government of Nagaland as on 31 March 2022 is given in **Appendix 1.2**. Summarised position of Assets and Liabilities of the State for the year 2021-22 as compared to the previous year 2020-21 is shown in **Table 1.4**.

**Table 1.4: Summarised position of Assets and Liabilities**

(₹ in crore)

Liabilities					Assets				
		2020-21	2021-22	Increase (per cent)			2020-21	2021-22	Increase (per cent)
Consolidated Fund									
A	Internal Debt	10,331.14	10,794.87	4	A	Gross Capital Outlay	20,973.99	22,867.84	9
B	Loans and Advances from GoI	317.88	612.54	93	B	Loans and Advances	41.45	42.17	2
Contingency Fund		0.35	0.35	0					
Public Account									
A	Small Savings, Provident Funds, etc.	1,875.68	1,606.81	-14	A	Advances	0.58	0.58	0
B	Deposits	978.57	923.61	-6	B	Remittance	-	-	
C	Reserve Funds	1,754.57	1,900.16	8	C	Suspense and Miscellaneous	90.10	75.29	-16
D	Remittances	-661.02	-831.48	26	Cash balance (incl. investment in Earmarked Fund)		2,745.33	2,909.32	6
					<b>Total</b>		<b>23,851.45</b>	<b>25,895.20</b>	<b>9</b>
					<b>Deficit in Revenue Account</b>		<b>9,254.28</b>	<b>10,888.34</b>	<b>18</b>
<b>Total</b>		<b>14,597.17</b>	<b>15,006.86</b>	<b>3</b>	<b>Total</b>		<b>14,597.17</b>	<b>15,006.86</b>	<b>3</b>

Source: Finance Accounts, 2021-22

As can be seen from **Table 1.4**, Assets and Liabilities of the State during 2021-22 showed an increase of three *per cent* over the previous year. The increase in Liabilities was mainly due to increase in Reserve Funds (eight *per cent*) and Loans & Advances from GoI (93 *per cent*), which was offset by decrease in Small Savings, Provident funds, etc. (14 *per cent*) over the previous year. Similarly, increase in Assets was mainly due to increase in Cash balance (including investment in Earmarked Fund) (six *per cent*) and Gross Capital Outlay (nine *per cent*).

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

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

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

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

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

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

The Central and individual State Governments have passed Fiscal Responsibility and Budget Management Act (FRBM) 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.

Government of Nagaland enacted the Nagaland Fiscal Responsibility and Budget Management (NFRBM) Act, 2005 in line with the Union FRBM Act, 2003, to ensure stability and sustainability, improve efficiency and transparency in management of public finances, enhance the availability of resources by achieving sufficient revenue surplus, reduce fiscal deficit and remove impediments to effective conduct of fiscal policy and prudent debt management.

In line with the recommendations of Central Finance Commissions, the NFRBM Act was subsequently amended *i.e.*, July 2009, March 2011, March 2021 and March 2022.

In addition to the Fiscal Correction Path (FCP), the State Government is required to prepare every year, as per the provisions of the NFRBM Act, 2005, a Medium Term Fiscal Policy Statement (MTFPS) showing the rolling fiscal targets. The State Government had prepared MTFPS every year.

Status of achievement *vis-à-vis* projections made in the Act, based on the information furnished by Finance Department, Government of Nagaland during the period 2017-18 to 2021-22 is given in **Table 1.5**:

**Table 1.5: Compliance with the projections of FRBM Act**

Fiscal Parameters	Projections	Achievement				
		2017-18	2018-19	2019-20	2020-21	2021-22
Revenue		827.86	517.43	(-)213.73	375.37	1,634.06
Deficit (-)/ Surplus (+) (₹ in crore)	Maintain Revenue Surplus	✓	✓	✗	✓	✓
Fiscal Deficit	2017-20: Three per cent of GSDP	446.09 (1.83)	1,082.32 (4.08)	1,428.22 (4.84)	1,300.94 (4.44)	260.52 (0.80)
	2020-21: 3.92 2021-22 : 4.00	✓	✗	✗	✗	✓
Ratio of total outstanding debt to GSDP (per cent)	2017-18: 31.00 2018-19: 42.00 2019-20: 40.00 2020-21: 45.20 2021-22: 43.00	42.67	39.75	41.23	45.96	42.94
		✗	✓	✗	✗	✓

Source: Finance Department, GoN and Finance Accounts of respective years

State Government was successful in maintaining Revenue Surplus in four out of the five years, during the five-year period from 2017-18 to 2021-22.

The State was successful in achieving the respective Fiscal Deficit as per cent of GSDP and outstanding debt to GSDP ratio projections made in two out of the last five years during 2017-22. The position of projections made by the State Government in its MTFPS *vis-à-vis* achievements during the year 2021-22 is depicted in **Table 1.6**.

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

(₹ in crore)

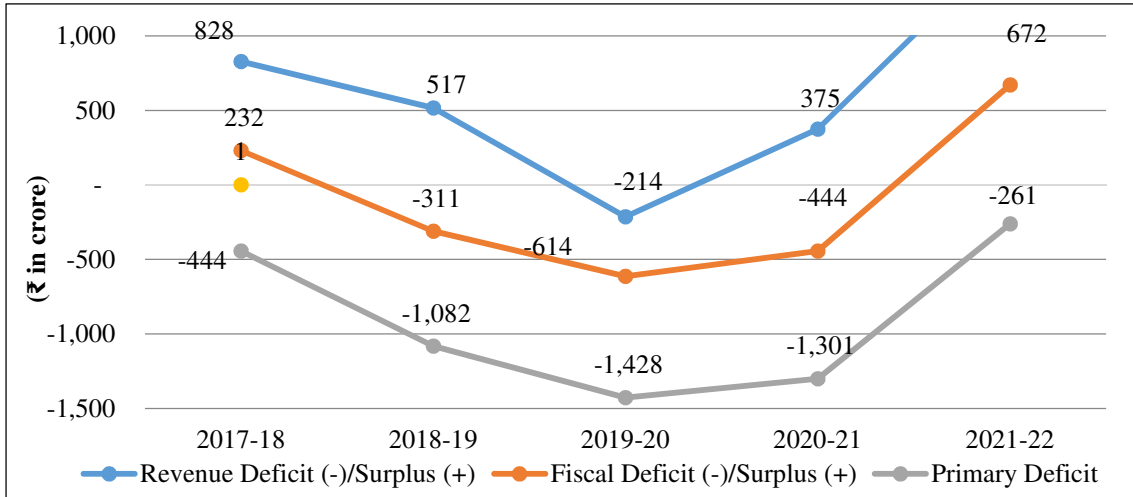
Sl. No.	Fiscal Variables	Projection as per MTFPS	Actuals (2021-22)	Variation (Excess (+)/ Short(-)) (in per cent)
1.	Own Tax Revenue	1,330.11	1,301.08	-2.18
2.	Non-Tax Revenue	264.78	303.58	14.65
3.	Share of Central Taxes	4,334.33	4,875.27	12.48
4.	Grants-in-Aid from GoI	6,870.35	6,971.21	1.47
<b>5.</b>	<b>Revenue Receipts (1 + 2 + 3 + 4)</b>	<b>12,799.57</b>	<b>13,451.14</b>	<b>5.09</b>
<b>6.</b>	<b>Revenue Expenditure</b>	<b>12,302.43</b>	<b>11,817.08</b>	<b>-3.95</b>
7.	Revenue Surplus (5 - 6)	497.14	1,634.06	228.69
8.	Fiscal Deficit	2,120.84	260.52	714.08
9.	Debt-GSDP ratio (per cent)	38.93	42.94	10.30
10.	GSDP growth rate at current prices (per cent)	13.39	6.57	-20.76

Source: MTFP Statement and Finance Accounts, 2021-22

As can be seen from **Table 1.6**, the projections made in MTFPS relating to two key fiscal parameters *i.e.*, Revenue Surplus and Fiscal Deficit was achieved during 2021-22. The projections relating to growth rate of GSDP and that of Debt-GSDP ratio was not met, with the year ending at a higher Debt to GSDP ratio.

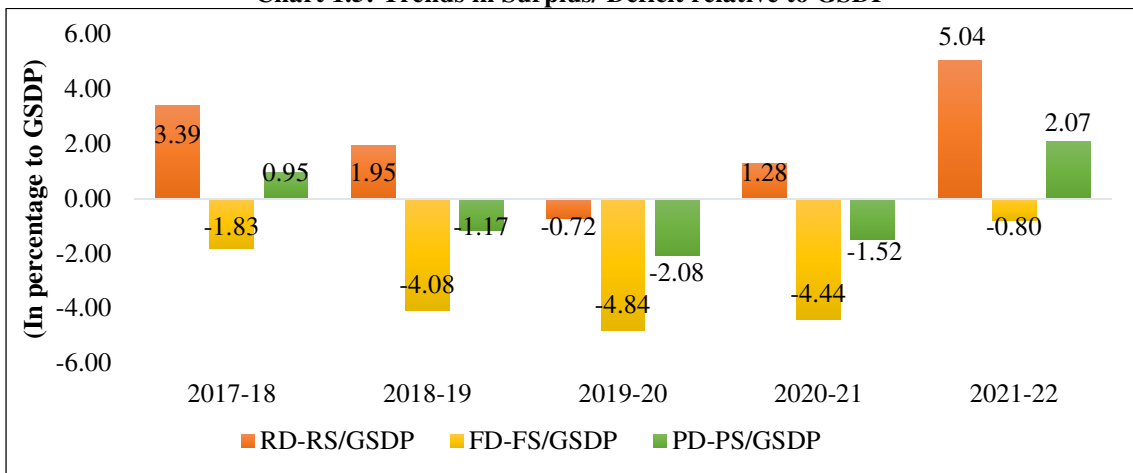
**Charts 1.4 and 1.5** present the trends in deficit indicators and **Chart 1.6** presents the trends in Fiscal Liabilities and GSDP *vis-à-vis* target set by the State Government in its MTFP statement over the period 2017-18 to 2021-22.

**Chart 1.4: Trends in deficit parameters**



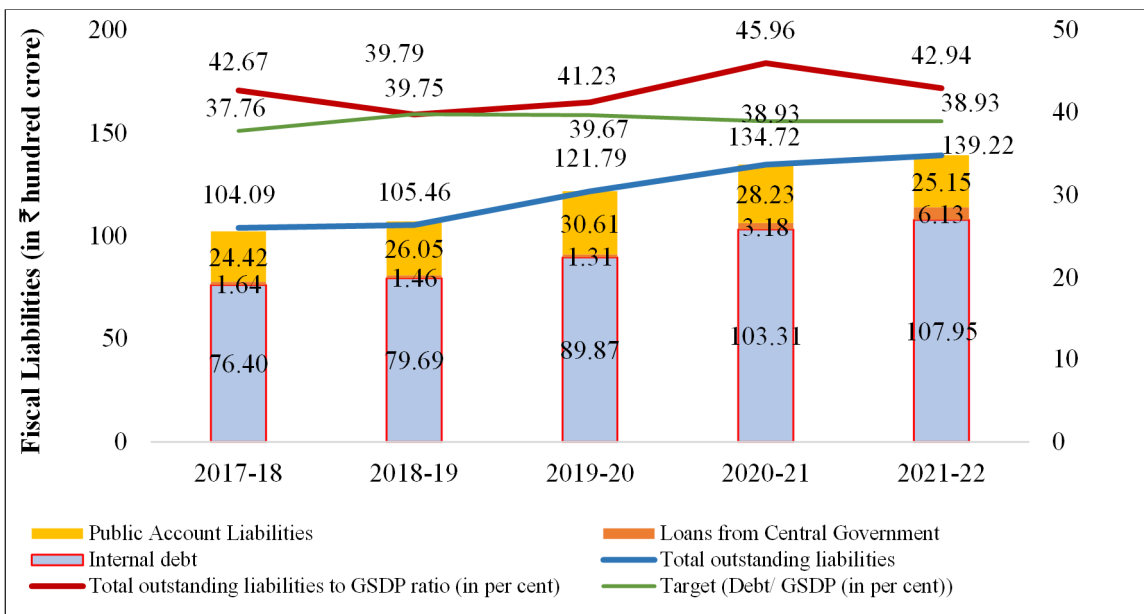
Source: Finance Accounts for respective years and GSDP-Directorate of Economics and Statistics, GoN

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



Source: Finance Accounts for respective years and GSDP-Directorate of Economics and Statistics, GoN  
RD: Revenue Deficit, FD: Fiscal Deficit; PD: Primary Deficit

**Chart 1.6: Trends in Fiscal Liabilities and GSDP**



Source: Finance Accounts for respective years and GSDP-Directorate of Economics and Statistics, GoN

As can be seen from **Charts 1.4 to 1.6**, Surplus on Revenue Account was witnessed during 2021-22 and it was mainly due to the fact that the State witnessed increase in Revenue Receipts during the year over the previous year. During 2021-22, Revenue Receipts increased by 17.71 *per cent* (₹ 2,023.14 crore) during the same period.

The total fiscal liabilities showed increasing trend during the five-year period 2017-22. The increasing trend was mainly due to increase in Loans from Central Government and Internal Debt. During this period, the total outstanding liabilities to GSDP ratio was above the norm set by the State Government in its MTFPS in four years.

## 1.6 Deficits and Total Debt after examination in audit

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

### Post audit - Deficits

Misclassification of Revenue Expenditure as capital and off budget financial activities impact deficit figures. Besides, deferment of clear cut liabilities, not depositing cess/royalty to Consolidated Fund, short contribution to National Pension Scheme, Sinking and Redemption funds, *etc.* also impacts the revenue surplus and fiscal deficit figures.

Audit noticed overstatement of Revenue Surplus by ₹ 109.24 crore and understatement of Fiscal Deficit by ₹ 83.26 crore for 2021-22, as detailed in **Table 1.7**.

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

Particulars	Impact on (₹ in crore) {Understated (+)/ overstated (-)}		Paragraph Reference
	Revenue Surplus	Fiscal Deficit	
Non- Contribution to Consolidated Sinking fund	(-) 65.77	(+) 65.77	Para 2.5.2.1
Minor works budgeted/ booked under Capital Section instead of Revenue	(-) 23.48	-	Para 3.3.2
Major works budgeted/ booked under Revenue Section instead of Capital	(+) 2.50	-	Para 3.3.2
Interest adjustment on Defined Contribution Pension Scheme	(-) 6.84	(+) 6.84	Para 4.2
State Compensatory Afforestation Fund	(-) 10.65	(+) 10.65	Para 2.5.2.4
<b>Total</b>	<b>(-)109.24</b>	<b>(+) 83.26</b>	

Source: Finance Accounts, 2021-22

Based on the result of examination of misclassification during post audit, the Revenue Surplus would reduce from ₹ 1,634.06 crore to ₹ 1,524.82 crore and Fiscal Deficit would increase from ₹ 260.52 crore to ₹ 343.78 crore.

## 1.7 Conclusion

The fiscal position of the State is viewed in terms of three key fiscal parameters—Revenue Deficit/ Surplus, Fiscal Deficit/ Surplus and primary deficit/surplus.

GSDP increased by ₹ 1,998.63 crore (6.57 *per cent*) from ₹ 30,425.11 crore in 2020-21 to ₹ 32,423.74 crore in 2021-22. During the last five years, there was a steady increase in GSDP from ₹ 24,392.96 crore in 2017-18 to ₹ 32,423.74 crore in 2021-22. GSDP

positive growth rate for Nagaland (6.57 per cent) was lower than the all India GDP growth rate (16.85 per cent) in 2021-22. Service Sector was the major contributor of GSDP during the year with 59.67 per cent. Agriculture Sector was the second largest contributor with 26.81 per cent while Industry Sector (11.21 per cent) and Taxes on products–Subsidies on products (two per cent) were third and fourth respectively.

During 2021-22, the State had a Revenue surplus of ₹ 1,634.06 crore which was 5.04 per cent of GSDP. Fiscal deficit was ₹ 260.52 crore during 2021-22 which was 0.80 per cent of GSDP and primary surplus was ₹ 671.57 crore, 2.07 per cent of GSDP.

Revenue Surplus increased from ₹ 375.37 crore in 2020-21 to ₹ 1,634.06 crore in 2021-22, mainly due to a significant increase in Revenue Receipts (17.71 per cent).

Revenue Receipts (₹ 13,451.14 crore) increased by 17.71 per cent (₹ 2,023.71 crore) over the previous year (₹ 11,427.43 crore), mainly due to increase in Own Tax Revenue (27.22 per cent) and State's share in Union Taxes and Duties (43 per cent).

Own Tax Revenue (₹ 1,301.08 crore) increased by 27.22 per cent over the previous year (₹ 1,022.74 crore). State's share of Union Taxes and Duties (₹ 4,875.27 crore) in comparison to the previous year (₹ 3,409.25 crore) increased by ₹ 1,466.02 crore (43 per cent).

Revenue Expenditure was ₹ 11,817.08 crore and it increased by 6.92 per cent (₹ 765.02 crore) over the previous year (₹ 11,052.06 crore).

Capital Expenditure which was ₹ 1,893.85 crore for the year, increased by 13.27 per cent (₹ 221.92 crore) over the previous year's expenditure of ₹ 1,671.93 crore. It was mainly due to increase in capital outlay under Social Services (80 per cent).

Total Expenditure for the year, which was ₹ 13,713.54 crore, increased by 7.73 per cent (₹ 983.94 crore) over the previous year (₹ 12,729.60 crore). It was mainly due to increase in both Revenue Expenditure (₹ 765.02 crore) and Capital Expenditure (₹ 221.92 crore).

Fiscal Deficit (₹ 260.52 crore) decreased by 79.97 per cent (₹ 1,040.42 crore) as compared to previous year (₹ 1,300.94 crore). The Government was successful in maintaining Revenue Surplus as projected in FRBM Act during the year and the Fiscal Deficit-GSDP ratio and Outstanding Debt-GSDP ratio were below the ceilings prescribed under the Act.

Based on the result of examination of misclassification during post audit, the Revenue Surplus would reduce from ₹ 1,634.06 crore to ₹ 1,524.82 crore and Fiscal Deficit would increase from ₹ 260.52 crore to ₹ 343.78 crore.

## 1.8 Recommendations

- State Government needs to keep up the trend of Own Tax Revenue collection achieved during 2021-22 by focusing on other potential areas, apart from State Goods and Services Tax to have a sustained increase in Own Tax Revenue.
- State Government needs continued efforts to achieve the projections on deficit and debt parameters, made in the Nagaland FRBM Act in the coming years.